

**REPORT TO CONGRESS**

**ON THE**

**NATIONAL DAIRY PROMOTION  
AND RESEARCH PROGRAM**

**AND THE**

**NATIONAL FLUID MILK  
PROCESSOR PROMOTION PROGRAM**

**JULY 1, 2002**

To obtain additional copies of the 2002 Report to Congress and the complete independent analysis of the programs, please contact:

Promotion and Research Branch  
Dairy Programs, Agricultural Marketing Service, USDA  
Stop 0233, Room 2958-South  
1400 Independence Avenue, SW  
Washington, DC 20250-0233  
(202) 720-6909  
Internet site: <http://www.ams.usda.gov/dairy/dairyrp.htm>

To obtain copies of or for questions on the complete independent analysis report of the programs, please contact:

Harry M. Kaiser, Ph.D.  
Cornell Commodity Promotion Research Program  
Department of Agricultural, Resource, and Managerial Economics  
Cornell University  
349 Warren Hall  
Ithaca, NY 14853  
(607) 255-1620  
E-mail address: [hmk2@cornell.edu](mailto:hmk2@cornell.edu)

To obtain copies of or for questions on the Fluid Milk Market and Promotion Assessment by Beverage Marketing Corporation of New York, please contact:

Gary Hemphill  
850 Third Avenue, 14<sup>th</sup> Floor  
New York, NY 10022  
(212) 688-7640

For additional information about the National Dairy Promotion and Research Board and Dairy Management Inc., please contact:

National Dairy Promotion and Research Board  
Dairy Management Inc.  
10255 West Higgins Road, Suite 900  
Rosemont, IL 60018-5616  
(847) 803-2000  
Internet site: <http://www.dairyinfo.com>

For additional information about the National Fluid Milk Processor Promotion Board, please contact:

National Fluid Milk Processor Promotion Board  
MilkPEP  
1250 H Street, NW, Suite 950  
Washington, DC 20005  
(202) 737-0153  
Internet site: <http://www.whymilk.com>

The U.S. Department of Agriculture (USDA) prohibits discrimination in all of its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or familial status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact the USDA's Target Center at (202) 720-2600. (voice and TDD).

To file a complaint of discrimination, write USDA Director, Office of Civil Rights, USDA, Room 326W, Whitten Building, 14<sup>th</sup> and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD). USDA is an equal opportunity provider and employer.

Report printed on recycled paper using vegetable-based ink.

# TABLE OF CONTENTS

	Page
INTRODUCTION .....	5
Chapter 1 THE DAIRY PROMOTION PROGRAMS .....	8
NATIONAL DAIRY PROMOTION AND RESEARCH BOARD .....	8
Cheese .....	10
Communications and Technology .....	12
Export and Dry Ingredients .....	14
Research .....	16
Fluid Milk .....	17
QUALIFIED STATE OR REGIONAL DAIRY PRODUCT PROMOTION, RESEARCH, OR NUTRITION EDUCATION PROGRAMS .....	18
NATIONAL FLUID MILK PROCESSOR PROMOTION BOARD .....	20
Medical and Scientific .....	21
NATIONAL INTEGRATED FLUID MILK PROGRAM	
Sponsorships .....	22
Advertising .....	23
Promotions .....	25
Public Relations .....	27
Strategic Thinking .....	28
School Marketing .....	29
Other Research .....	30
Chapter 2 UNITED STATES DEPARTMENT OF AGRICULTURE .....	31
NATIONAL DAIRY PROMOTION AND RESEARCH BOARD OVERSIGHT ....	31
Nominations and Appointments .....	31
Foreign Agricultural Service .....	32
Contracts .....	32
Contractor Audits .....	32
Collections .....	33
Compliance .....	33
Qualified Programs .....	33
NATIONAL FLUID MILK PROCESSOR PROMOTION BOARD OVERSIGHT ..	34
Nominations and Appointments .....	34
Program Development .....	34
Contractor Audits .....	34
Compliance .....	35
Chapter 3 IMPACT OF GENERIC FLUID MILK AND DAIRY ADVERTISING ON DAIRY MARKETS: AN INDEPENDENT ANALYSIS .....	36
Highlights .....	37
Factors Affecting the Demand for Fluid Milk and Cheese .....	38
Factors Affecting Generic Advertising Effectiveness .....	41
Impact of the Dairy and Fluid Milk Advertising Programs .....	44
Benefit-Cost of Advertising by the Dairy Program .....	45
Figures and Tables .....	47

Chapter 4	<b>FLUID MILK MARKET AND PROMOTION ASSESSMENT</b> .....	55
	BMC's Assessment of Current Milk Industry Environment .....	55
	BMC's Assessment of Current Milk Marketing Programs .....	62
Appendix A	National Dairy Promotion and Research Board	
	A-1 Current Member Listing .....	69
	National Fluid Milk Processor Promotion Board	
	A-2 Current Member Listing .....	71
Appendix B	B-1 Regions of the National Dairy Promotion and Research Board .....	73
	B-2 Regions of the National Fluid Milk Processor Promotion Board .....	74
Appendix C	C-1 National Dairy Board Actual Income and Expenses, Fiscal Years '99-2001 ....	75
	C-2 USDA Oversight Costs for the National Dairy Board, Fiscal Years '97-2001 ...	76
	C-3 National Dairy Board Approved Budgets, Fiscal Years 2000-2002 .....	77
	C-4 National Fluid Milk Board Actual Income and Expenses '97-2001 .....	78
	C-5 USDA Oversight Costs for the National Fluid Milk Board '97-2001 .....	79
	C-6 National Fluid Milk Board Approved Budgets, Fiscal Years '98-2002 .....	80
Appendix D	Financial Audits	
	D-1 National Dairy Promotion and Research Board .....	81
	D-2 National Fluid Milk Processor Promotion Board .....	92
Appendix E	E-1 National Dairy Board and Dairy Management Inc. Contracts Reviewed by USDA, 2001 .....	110
	E-2 National Fluid Milk Processor Promotion Board and International Dairy Foods Association Contracts Reviewed by USDA, 2001 ...	114
Appendix F	National Dairy Board Dairy Foods and Nutrition Research Programs	
	F-1 Nutrition and Health Research Institutes and Dairy Foods Research Centers ...	115
	F-2 Dairy Foods Competitive Research Activities During 2001 .....	116
	F-3 Nutrition Competitive Research Activities During 2001 .....	118
Appendix G	Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs, 2001 .....	121

# **USDA REPORT TO CONGRESS ON THE DAIRY PROMOTION PROGRAMS 2002**

## **INTRODUCTION**

The enabling legislation of both the producer and processor dairy promotion programs (7 U.S.C. 4514 and 7 U.S.C. 6407) requires the U.S. Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry by July 1. The producer and processor programs are conducted under the Dairy Promotion and Research Order (Dairy Order) (7 CFR 1150) and the Fluid Milk Promotion Order (Fluid Milk Order) (7 CFR 1160), respectively. This report includes a description of activities for both the producer and processor programs and summarizes activities of their national integrated fluid milk program. An accounting of funds collected and spent, an independent analysis of the effectiveness of the advertising campaigns of the two programs, and an industry commissioned review of fluid milk markets and program operations are included. This report addresses program activities for the fiscal period January 1- December 31, 2001, of the Dairy Promotion Program and the Fluid Milk Processor Promotion Program, unless otherwise noted.

### ***PRODUCER DAIRY PROMOTION PROGRAM***

The Dairy Production Stabilization Act of 1983 (Dairy Act) (7 U.S.C. 4501 *et seq.*) authorized a national producer program for dairy product promotion, research, and nutrition education as part of a comprehensive strategy to increase human consumption of milk and dairy products. Dairy farmers fund this self-help program through a mandatory 15-cent per hundredweight assessment on all milk produced in the contiguous 48 States and marketed commercially. Dairy farmers administer the national program through the National Dairy Promotion and Research Board (Dairy Board). The Dairy Act provides that dairy farmers can direct up to 10 cents per hundredweight of the assessment for contributions to qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs).

The Dairy Order became effective on May 1, 1984. The Dairy Act required the Secretary of Agriculture to conduct a referendum among dairy farmers by September 30, 1985, to determine if a majority favored continuation of the program. Nearly 90 percent of the dairy farmers voting in the August-September 1985 referendum favored continuing the program. USDA held a second referendum on the dairy promotion program in August 1993. Approximately 71 percent of the dairy farmers who voted in the referendum favored continuing the program. USDA will hold future referenda at the direction of the Secretary or upon the request of at least 10 percent of the affected dairy farmers.

The Dairy Board portion of the revenue from the 15-cent per hundredweight producer assessment was \$83.6 million for 2001. Qualified Programs revenue from the producer assessment was \$170 million for 2001. Revenue from assessments for the Dairy Board and many of the Qualified Programs is integrated through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together.

### ***FLUID MILK PROCESSOR PROMOTION PROGRAM***

The Fluid Milk Promotion Act of 1990 (Fluid Milk Act) (7 U.S.C. 6401 *et seq.*) authorized the establishment of a national processor program for fluid milk promotion and education. The Fluid Milk Order became effective December 10, 1993. The Secretary appointed the initial National Fluid Milk Processor Promotion Board (Fluid Milk Board) on June 6, 1994.

Processors administer this program through the Fluid Milk Board. Processors marketing more than 3,000,000 pounds of fluid milk per month, excluding those fluid milk products delivered to the residence of a consumer, fund this program through a 20-cent per hundredweight assessment on fluid milk processed and marketed in consumer-type packages in the contiguous 48 States and the District of Columbia.

The Fluid Milk Board's revenue for the January 1 through December 31, 2001, period was \$109 million. Approximately 69 percent of program expenditures was used for fluid milk advertising, 9 percent for promotions, and about 9 percent for public relations. The remaining funds were used for research and general and administrative expenses.

The Fluid Milk Act required the Secretary to conduct a referendum among fluid milk processors to determine if a majority favored implementing the program. In the October 1993 referendum, 72 percent of the processors voted to approve the implementation of the fluid milk program. These processors represented 77 percent of the volume of fluid milk products marketed by all processors during May 1993, the representative period set for the referendum. USDA held a continuation referendum in February-March 1996. Of the processors voting in that referendum, nearly 65 percent favored continuation of the program. These processors represented 71 percent of the volume of fluid milk products marketed by all processors during September 1995, the representative period set for the referendum. In November 1998, USDA held a continuation referendum at the request of the Fluid Milk Board. Fluid milk processors voted to continue a national program for fluid milk promotion established by the Fluid Milk Order. Of the processors voting in this referendum, 54 percent favored continuation of the order. These processors represented 86 percent of fluid milk products processed and marketed by fluid milk processors voting in the referendum. The Fluid Milk Act and Order state that USDA will hold future referenda upon the request of the Fluid Milk Board, processors representing 10 percent or more of the volume of fluid milk products marketed by those processors voting in the last referendum, or when called by the Secretary.

## ***NATIONAL INTEGRATED FLUID MILK PROGRAM***

Dairy Management Inc. (DMI) – the staffing organization for the Dairy Board – and the Fluid Milk Board completed the integration of their fluid milk programs in January 1999, and this continued in 2001. The integration plan has enabled the Fluid Milk Board to fulfill the promotion program coordination requirements of the Fluid Milk Act. The funding level of the integrated program totaled approximately \$163 million in 2001, with about \$67 million from DMI and State and regional organizations and about \$96 million from the Fluid Milk Board. The integrated plan, which includes both planning and implementation, continues to be research-based, message-focused, and jointly managed.

A summary of the national integrated fluid milk program for fiscal year 2001 follows the Fluid Milk Board section in Chapter 1 of this report.

## ***USDA OVERSIGHT AND INDEPENDENT ANALYSIS***

USDA has oversight responsibility for both dairy promotion programs. The oversight objectives ensure that the Boards and the Qualified Programs properly account for all program funds and that they administer the programs in accordance with their respective Acts and Orders. USDA also has responsibility for obtaining an independent evaluation of the programs. The Boards reimburse the Secretary, as required by the Acts, for USDA's administrative costs of program oversight and for the independent analysis.

Chapter 1 of this Report describes the activities of the Dairy Board, Qualified Programs, and the Fluid Milk Board. Chapter 2 reviews the oversight activities of USDA. Chapter 3 reports the results of the independent analysis of the effectiveness of the programs conducted by Cornell University. Chapter 4 presents the industry commissioned fluid milk market and program operations review.

# CHAPTER 1

## THE DAIRY PROMOTION PROGRAMS

In 2001, the National Dairy Promotion and Research Board (Dairy Board) and the National Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to develop and implement programs to expand the human consumption of fluid milk and dairy products. While each promotion program has many unique activities, the two programs continued the integration of their fluid milk programs for the third year in 2001.

### National Dairy Promotion and Research Board

The mission of the Dairy Board is to coordinate a promotion and research program that expands domestic and foreign markets for fluid milk and dairy products produced in the United States. The Dairy Board is responsible for administering the Dairy Promotion and Research Order (Dairy Order), developing plans and programs, and approving budgets. Its dairy farmer board of directors administers these plans and monitors the results of the programs.

The Secretary of Agriculture (Secretary) appoints 36 dairy farmers to administer the Dairy Order. The Secretary makes the appointments from nominations submitted by producer organizations, general farm organizations, qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs), and by other means as determined by the Secretary (7 CFR 1150.133(a)). Dairy Board members serve 3-year terms and represent one of 13 regions in the contiguous 48 States. Dairy Board members elect four officers: Chair, Vice-Chair, Treasurer, and Secretary. Current Dairy Board members are in **Appendix A-1**. A map of the contiguous 48 States depicting the 13 geographic regions is in **Appendix B-1**.

Total Dairy Board actual revenue for 2001 was \$84 million (includes assessments and interest). This amount was less than the Dairy Board budget of \$84.7 million for that period. The Dairy Board revised budget for 2002 projects total revenue of \$85 million from assessments and interest. The Dairy Board administrative budget continued to be within the 5-percent-of-revenue limitation required by the Dairy Order. A list of actual income and expenses for 1999-2001 are in **Appendix C-1**. USDA's oversight and evaluation expenses for 1997-2001 are in **Appendix C-2**. **Appendix C-3** displays the Dairy Board's approved budgets and a comparison of program funding by function for 2000-2002. An independent auditor's report for 2001 is in **Appendix D-1**.

The Dairy Board has two standing committees: the Finance and Administration (F&A) Committee and the Executive Committee. The F&A Committee is made up of the Dairy Board officers and appointees named by the Dairy Board Chair. The Dairy Board Treasurer is the Chair of the F&A Committee, and the committee elects a Vice-Chair. The full Dairy Board serves as the Executive Committee. The remaining committees for the Dairy Board are joint program committees with the United Dairy Industry Association (UDIA).



In March 1994, the Dairy Board approved the creation of Dairy Management Inc.<sup>™</sup> (DMI). DMI is a joint undertaking between the Dairy Board and the UDIA. UDIA is a federation of 19 of the 62 active Qualified Programs under the direction of a board of directors. DMI merged the staffs of the Dairy Board and UDIA to manage the Dairy Board programs as well as those of the American Dairy Association® and National Dairy Council® throughout the contiguous 48 States. DMI is a merger of the two separate program and administrative staffs into a single staff that serves both boards and is structured into four support groups. The domestic marketing group supports advertising, school marketing, nutrition and product research, product publicity, and retail promotion activities. The industry relations/communications group provides outlets for news about dairy through its media contacts as well as communication regarding the dairy checkoff program to producers and the rest of the dairy industry. The research, planning, and evaluation group provides analysis of domestic and foreign marketplaces, program effectiveness, consumption patterns, and consumer perceptions for effective program planning, implementation, and measurement. The export group serves as a resource for U.S. dairy processors to improve export capabilities of the U.S. dairy industry.

Since January 1, 1995, the Dairy Board and UDIA have developed their marketing plans and programs through DMI. DMI facilitates the integration of producer promotion funds through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The goals of DMI are to reduce administrative costs, to have a larger impact on the consumer, and to drive demand thereby helping to increase human consumption of fluid milk and dairy products.

DMI funds 1- to 3-year research projects that support marketing efforts. Six Dairy Foods Research Centers and two Nutrition Institutes provide much of the research. Their locations and the research objectives are listed in **Appendix F-1**. Additionally, lists of DMI's dairy foods and nutrition projects are contained in **Appendices F-2 and F-3**, respectively. Universities and other industry researchers throughout the U.S. compete for these research contracts.

In 2000, the DMI Board consisted of 12 dairy farmers from the Dairy Board and 12 dairy farmers from the UDIA Board. An amendment to the articles of incorporation of DMI to expand the DMI Board size took effect January 1, 2001, and the expanded DMI Board now comprises all Dairy Board and all UDIA Board members.

The committees for program activities are comprised of board members from both the Dairy Board and UDIA Boards. The Dairy Board and UDIA Board separately must approve the DMI budget and annual plan before they can be implemented. In October 2000, both boards approved a 2001 unified dairy promotion plan budget and national implementation programs. The 2001 unified dairy promotion plan was designed to invest dollars where consumers are – not where dairy cows are. The unified dairy promotion plan was consistently implemented in demand-building consumer markets nationwide.

During 2001, DMI hosted the second series of dairy director regional planning forums across the country to review and develop marketing strategies for development of the 2002 unified dairy promotion plan. These forums were originally designed to create one unified dairy promotion plan and allow opportunity for State and regional dairy board members to ask questions, raise concerns, and offer their thinking on the direction and development of a

unified dairy promotion plan. At the 2001 forums, dairy directors across the country helped to finalize dairy promotion's long-term unified marketing plan, which for fluid milk focuses on kids and the mothers of those young children and for cheese focuses on adult segments called cheese "Cravers" and "Enhancers." Other outcomes from the 2001 forums included dairy farmer input that (a) emphasized programs with less reliance upon television advertising; (b) emphasized continuance of successful foodservice and retail activities; (c) highlighted the need for heavier focus on kids and school milk problems; (d) stressed more focus on industry partnerships; and (e) emphasized a stronger, more proactive image protection of dairy products. Combined spending for the unified dairy promotion plan totaled more than \$267 million. In addition to funding from the Dairy Board, the unified dairy promotion plan leverages resources from State and regional organizations, the Fluid Milk Board, the U.S. Dairy Export Council, and UDIA. These organizations will turn their attention to developing a new five-year strategic direction for the unified dairy promotion plan in 2002.

The joint Dairy Board and UDIA Board committee structure provides the framework for DMI program activities. The Dairy Board and UDIA Board Chairs assign their respective board members to the following joint program committees: Cheese, Communications and Technology, Export and Dry Ingredients, and Fluid Milk. Each committee elects a Chair and a Vice-Chair. The joint committees and the DMI staff are responsible for setting program priorities, planning activities and projects, and evaluating results. Two additional ad-hoc committees added during 2000 that continued to operate in 2001 were the Joint Industry Partnering Committee and the Joint Evaluation Committee. The Dairy Board and UDIA Board review and approve all DMI activities. During 2001, the Dairy Board and UDIA Board met jointly six times.

The following information describes the activities for each program committee during 2001. **Appendix E-1** contains the DMI and Dairy Board contracts for projects reviewed by USDA during 2001.

## ***CHEESE***

The DMI umbrella cheese campaign "Ahh, the power of Cheese™" continued to promote cheese directly toward "Cheese Lovers," with an emphasis on cheese "Cravers" and cheese "Enhancers." Cheese "Cravers" eat cheese primarily as-is directly out of the package or off the block and consume cheese as an important component of their food consumption routine. Cheese "Enhancers" have equally positive attitudes toward cheese but their consumption primarily takes the form of cheese as an ingredient in meal preparation. As in previous years, the DMI cheese television advertising campaign was recognized for creative excellence, winning numerous awards, including Creative Best Spots for "Disaster," "No Pain, No Gain," and "Break In" by *Adweek* Magazine. At the 2001 Chicago International Film Festival, DMI 2000 television executions won the Silver Plaque (Mom), Gold Plaque (Election), and the Gold Hugo Award (entire cheese campaign) in the Food Products Category. **Table 1-1** contains a listing of DMI's 2001 cheese advertising executions.

---

TABLE 1-1 2001 Dairy Management Inc. Cheese Advertising

---

<u>Television</u>	<u>Print</u>
Disaster	Mighty Mouse
No Pain, No Gain	Crackers
Big Cheese	Fishing
Break In	Holiday
Moon	Kitchen
Santa	Peppers*
	Chicken & Cheese*
	Artichoke*

---

SOURCE: Dairy Management Inc. (\*Denotes Trade and Foodservice Print Advertising)

---

As in previous years, the cheese marketing effort included major retail co-marketing programs implemented in supermarkets representing more than 60% of U.S. retail grocery sales volume. These accounts included large national accounts like Kroger, Wal-Mart Supercenters, Safeway, and Albertsons. In these efforts, DMI provides retailer-customized media (television, radio, or direct mail) and in-store sampling, which are combined with the retailer's own advertising and merchandising support to drive cheese sales. Research has consistently shown that these co-marketing programs contribute to increased cheese category volume in participating stores.

In foodservice, DMI continued to implement trade advertising and public relations campaigns to keep cheese top-of-mind with restaurant operators. The trade print advertising is listed in **Table 1-1**. DMI also worked closely with four of the top five national restaurant chains, including Taco Bell®, Wendy's®, and Pizza Hut® to drive cheese volume and ensure that cheese was prominently featured in menu items. For example, DMI staff provided Taco Bell® with consumer research and trend data to show the large impact of cheese in how customers decide which menu option to choose. As a result, Taco Bell® developed and launched a new *Chicken Quesadilla* item, which featured a blend of Cheddar, Pepper Jack, and Mozzarella cheeses. Taco Bell® reports using more than double their usual amount of cheese during the five-week promotional debut of the *Chicken Quesadilla*. And, for the third straight year, Wendy's® restaurant introduced its popular Cheddar Lovers' Bacon Cheeseburger sandwich. During the four-week promotion period, Wendy's® sold more than 12 million sandwiches, each featuring two slices of Cheddar cheese and a Cheddar sauce. The promotion used nearly 1.7 million pounds of cheese and the chain's cheese use grew by 15 percent, compared to the same time period a year ago. DMI assisted Wendy's® with the development of this cheese-friendly sandwich in 1999.

DMI also executed a comprehensive product publicity program for cheese in 2001 that leveraged the continued success of the "Ahh, the power of Cheese" advertising campaign. For the sixth consecutive year, and to kick off National Grilled Cheese Month in April 2001, DMI partnered with Mr. Food® and executed a new program called the "Mr. Food's® Hometown Grilled Cheese Recipe Contest." The grand-prize winning recipe – a Spicy Cajun Bayou Grilled Cheese recipe – was prepared on Mr. Food's® nationally syndicated television show and reached over 10 million viewers. Other cheese publicity highlights included "Flights: Changing the Course of Cheese" and "Simply American" programs.

“Flights: Changing the Course of Cheese” capitalized on emerging consumer interest in wines by showcasing flavorful pairings of domestic artisanal cheeses and wine. A large media event was held at a New York City restaurant with more than 200 cheeses on its menu, featuring 25 domestic artisanal cheeses. “Simply American” showcased Americans’ love for comfort food and highlighted cheese as a versatile, easy, and delicious ingredient that makes one-dish meals better. The program also used survey results to generate additional cheese messages and regional media angles supporting the one-dish theme.

Also in 2001, website [www.ilovecheese.com](http://www.ilovecheese.com) was enhanced with several new features aimed at triggering cheese lovers’ craving for cheese. It now includes a “Virtual Cheese Case,” which supplies detailed information about 35 domestic cow’s milk cheeses. Also, an interactive “Cheese Profiler Survey” assists website visitors in determining which cheeses best fit their lifestyle and suggests meal combinations and recipes. Website [www.ilovecheese.com](http://www.ilovecheese.com) also promoted the full-page advertorial in *Redbook* magazine “Warm up with Cheese!” The advertorial featured a three-cheese dish and tips on making familiar recipes with cheese. Redbook sponsored a one-dish recipe contest that was announced in the advertorial. The website is sponsored by the American Dairy Association®, whose programs are managed by DMI.

DMI’s product research activities for cheese during 2001 continued to feature extensive investigations of manufacturing methodology, ripening, stability and physio-chemical rheology, and functional properties of cheese. Of note, research through DMI’s Extraordinary Dairy program (which is discussed further in the Export and Dry Ingredient section) led to the development of a comprehensive descriptive sensory language for Cheddar cheese flavor, which provides the dairy industry with a common language to define and describe critical cheese characteristics. The language resource is known as the “Cheese Lexicon.” It was generated from the analysis of 220 Cheddar cheeses and 70 other cheeses representing age, fat content, and geographical regions. The Lexicon can help cheesemakers and cheese users characterize their products and improve quality issues by measuring and controlling the presence of chemical compounds associated with flavor defects.

## **COMMUNICATIONS AND TECHNOLOGY**

Consumers receive mixed messages through the media about the nutritional value and benefits of food. DMI worked to provide consumers with education and information based on sound nutritional science and communicated the value of dairy products to consumers, as well as to health professionals and educators.

DMI also worked to inform dairy farmers about how their assessment dollars were being used. DMI continued to communicate to dairy producers and other industry audiences through publications (such as the annual report, joint newsletters with State and regional dairy promotion groups, and dairy cooperative check stuffers), dairy industry events (including major trade shows and producer meetings) and media relations (including press releases, feature placements, and farm broadcast interviews). For the fourth year, DMI continued its “Dairy Ambassadors” program, which uses a select group of dairy farmers to deliver consistent messages about the dairy promotion program to dairy producers and other industry audiences.

DMI continued its support for butter through cooperation and public relations activities with the American Butter Institute, including the website [www.butterisbest.com](http://www.butterisbest.com), a consumer resource center with current cooking trends and ideas, butter recipes, and links to other butter-related sites. DMI also co-funded butter promotion activities with the California Milk Advisory Board in 2001.

DMI's Chair, CEO, and board members participated in meetings with dairy cooperatives, industry associations, processors, and other groups throughout the country. The Dairy Board and the UDIA House of Delegates also agreed to continue dairy director regional planning forums in 2002. The 2001 national dairy director forum, which brought together dairy farmers from all over the country to share ideas and thoughts about future dairy promotion activities, was successful in solidifying industry support for continued regional planning forums and a unified marketing plan approach to dairy promotion.

Another activity of the Communications and Technology program was the issues management program. The objective of this program was to identify, monitor, and manage key issues that may influence consumer perceptions of dairy products. DMI coordinated its issues management activities with State and regional dairy promotion groups, as well as other dairy and agricultural groups. DMI worked with these groups to bring forth sound, science-based information to address consumer issues. Dairy Reputation Management, an industry-wide effort that interacts with the Issues Management, Industry Relations, and Dairy Image Programs, continued a proactive program to educate and reinforce the positive attributes of dairy foods, dairy farmers, and dairy farming practices to consumers.

A new program was designed and initiated in 2001 to enhance existing dairy image and issues management programs. One important component of the new program included development of an industry-wide crisis communications and preparedness plan to address a potential animal disease outbreak in the United States. To support this initiative, DMI conducted research to better understand consumer perceptions and concerns regarding animal diseases and to assist in the development of key messages that could be used in a national animal disease crisis situation. A second component included the creation and distribution of a publication entitled *Dairy Dialogue*, the purpose of which is to keep people informed about important research and developments in the dairy industry.

Farmer-funded nutrition research continues to demonstrate that dairy products are a necessary food component in the diet of all people throughout the life cycle. Research continues to focus on improving childhood nutrition and on diseases that may see decreasing occurrences as a result of consuming dairy foods. Additionally, ongoing nutrition research is validating discoveries about the potential benefits of dairy food consumption in reducing obesity. There is an emergence of research that promises to bring forth cutting-edge health breakthroughs in the reduction of obesity and related diseases. Transfer of these research outcomes has enhanced the image of the healthfulness of dairy foods by many health professional organizations, which continue to endorse the role of dairy foods in a healthy diet.

Farmer-funded product research addresses safety and quality issues, continues to examine new milkfat-based ingredients, and provides technical support to the marketing of these ingredients.

### ***EXPORT and DRY INGREDIENTS***

DMI's export enhancement program is implemented by the U.S. Dairy Export Council (USDEC). USDEC receives primary funding from three sources: DMI, USDA's Foreign Agricultural Service (FAS), and membership dues from dairy cooperatives, processors, exporters, and suppliers. In 2001, USDEC received \$6.1 million from DMI; \$2.1 million from USDA's Foreign Market Access Program and the Market Promotion Program that support commodity groups in promotion of their commodities in foreign markets; and \$630 thousand from membership dues. USDEC began its sixth year of operation in 2001, and its total budget was \$10.2 million.

USDEC has offices in Mexico City, Tokyo, Seoul, Hong Kong, Shanghai, Bangkok, Taipei, London, and Sao Paulo. Activities in Mexico concentrated on cheese; in 2001, cheese exports to Mexico posted a 63% increase over 2000 levels. In Japan and Korea, cheese and dairy ingredients were highlighted; in China, where cheese is not a part of the traditional diet, dairy ingredient promotions led to a 69% increase in lactose exports and a 20% increase in whey exports. In other Southeast Asian markets, promotions focused on value-added products such as cheese and ice cream, as well as dairy ingredients. Specific promotions included in-store retail promotions and sampling in supermarkets, joint promotions with food service companies, quarterly trade newsletters, exhibits at trade fairs, and seminars about U.S. dairy products presented to the press, end-users, and food distributors.

Final 2001 export data confirm that U.S. dairy product exports for the third year eclipsed the \$1 billion mark, and 85% of that total were commercial, unsubsidized sales. Export volume, almost 9 billion pounds on a milk equivalent, total solids basis, represented just over 5% of total U.S. production in 2001. Total U.S. exports show a 28% increase in lactose exports, a 10% increase in cheese exports, and increases of 2% and 11% for ice cream and fluid milk, respectively.

In Mexico, a joint promotion with Domino's Pizza featured the USDEC logo on all Domino's pizza boxes with the slogan "Made with 100% U.S. Cheese." Domino's delivers more than 1.6 million pizzas a month in Mexico. Restaurant promotions in Japan and Korea featured special menu items including cheese on salads, cheese fries, and sandwiches featuring American cheese varieties. Enthusiastic consumer response led to the addition of the dishes to the permanent menus. A Korean retail activity featured in-store sampling at several multinational chains highlighting cream cheeses, Monterrey Jack, and cheddar cheeses; participating stores reported sales increases of 100% on average during the three-week promotion.

USDEC continued working to improve the export capabilities of domestic dairy companies. USDEC assists U.S. dairy exporters by providing up-to-date information on market conditions, global trade trends, and regulatory requirements for export. Ongoing reverse trade mission activities provide opportunities for domestic dairy product suppliers to meet potential importers visiting the U.S. Of note, in November 2001 a Mexican and South American buyer reverse trade mission visited five U.S. cheese plants to increase overseas trade knowledge of production, quality, and varieties of U.S. cheeses. The group also participated in dairy case management and U.S. cheese seminars. USDEC staff estimates potential cheese exports as a result of the mission could exceed 10,000 metric tons per year.

To increase customer knowledge of dairy ingredient functionality, USDEC produced 12 whey monographs in 2001. These reports – addressing whey applications in baked goods, confections, ice cream and frozen desserts, low-fat goods, and sports nutrition, among others – were translated and made available in markets around the world. English-language versions of these and other valuable export information can be accessed at [www.usdec.com](http://www.usdec.com). For 2002, USDEC will continue to focus a significant portion of its market development programming toward the dairy ingredient and cheese sectors.

Nonfat dry milk and whey promotion efforts were conducted via advertising, public relations, trade shows, and the website [www.doitwithdairy.com](http://www.doitwithdairy.com). The advertising theme “Do it with Dairy®” was utilized throughout all activities. The “Do it with Dairy” ingredient marketing campaign reaches the food manufacturing/processing industry with key market-driven whey research results and usage messages. Several newsletters and other publications support this program. “Dairy Dimensions,” a quarterly newsletter, focuses on developments in dairy technology research. “Dairy Ingredients Insider,” is a newsletter where dairy ingredient suppliers are able to track buyer attitudes, behaviors, buying patterns, and product development plans. The latter has become a key planning tool for some suppliers, as it enables them to effectively utilize and leverage market research developed by DMI.

In 2001, DMI launched Mooru™, a powerful new on-line search engine that encompasses a variety of interactive service programs and acts as an information portal designed for multiple audiences within the food and dairy industries. Mooru™ offers three different interactive elements including an ingredient selector, dairy ingredient supplier database, and Pitch Notes, a self-guided educational tool to help the processor sales force learn more about dairy ingredients.

Also for the third straight year, DMI sponsored the *Discoveries in Dairy Ingredients Contest*. The contest allows undergraduate college students to develop an innovative food product formulation using dry milk, whey, or whey derivatives, such as whey protein concentrate and whey protein isolate. The contest has a dual purpose – to highlight the versatility and functionality of dairy ingredients while at the same time provide food science students with practical, marketable experience. The three prize categories include: Best Overall Product Award, Product Marketability Award, and Product Creativity Award. Winning entries were featured at the 2001 Institute of Food Technologists Food Expo.

“Ingredient Insights,” a newsletter designed expressly for food formulators and ingredient suppliers, continues to provide news about dairy ingredients, specific applications, and technical support resources. As a part of this program, DMI provides ingredient technical support systems for food technologists. The system features four tiers, enabling food technologists to request the level of support they find the most useful. The options range from requesting technical information via FAX-ON-DEMAND to direct dialogue with a researcher.

“Innovations in Dairy,” a technical bulletin that details new dairy science and technology information and research, is executed through a series of authoritative, topical updates written from a practical perspective for the lay reader.

Research continues to focus on nonfat dry milk and whey in the areas of functionality, quality, packaging, and new applications. In addition, the application laboratory for nonfat dry milk at California Polytechnic State University and the whey application laboratory at the University of Wisconsin Center for Dairy Research continued to provide technical assistance to both those that produce the ingredients and those that use the ingredients in finished products. The website [www.extraordinarydairy.com](http://www.extraordinarydairy.com) provides a network of resources and information to help the dairy and food industries bring innovative products, formulations, and processes to market.

Research is also exploring additional health benefits of whey. Pre-clinical (non-human) trials are currently exploring the role of specific whey proteins in reducing the risk of certain types of cancers, including breast and prostate cancer. Research trials are investigating a potential link between whey proteins and reducing the risk of hypertension, and specific whey proteins have shown anti-bacterial properties. Long term, this may lead to whey’s use as an ingredient in solving potential food safety concerns with certain perishable foods like meats or produce.

## **RESEARCH**

In June 2001, DMI (the National Dairy Council®) sponsored a national human nutrition research forum, enabling the National Dairy Council® to provide key dairy industry leaders with cutting-edge dairy nutrition science for potential use in new product marketing, development, and overall dairy product positioning. Over 100 marketing representatives from private companies, new product development representatives, nutrition scientists, government officials, and dairy council staff participated.

2001 National Dairy Council® funded dairy nutrition research highlights included:

1. The role of dairy as part of a heart-healthy diet.
2. The role of calcium-rich dairy products in successful weight loss and maintenance.
3. Research showing that people diagnosed with lactose maldigestion can still consume dairy products.
4. Dairy’s role in the prevention and reduction of colon cancer.



## ***FLUID MILK***

Information on integrated fluid milk advertising, promotions, public relations, school marketing, strategic thinking, and other activities that include DMI, State and regional organizations, and the Fluid Milk Board is detailed in the national fluid milk integrated program summary in this chapter.

## **Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs**

Qualified Programs are certified annually by the Secretary. To receive certification, the Qualified Program must: (1) conduct activities that are intended to increase human consumption of milk and dairy products generally; (2) have been active and ongoing before passage of the Dairy Act, except for programs operated under the laws of the United States or any State; (3) be primarily financed by producers, either individually or through cooperative associations; (4) not use a private brand or trade name in its advertising and promotion of dairy products (unless approved by the Dairy Board and USDA); and (5) not use program funds for the purpose of influencing governmental policy or action (7 CFR 1150.153). A list of the 62 active programs is provided in **Appendix G**.

The aggregate revenue from the producers' 15-cent per hundredweight assessment directed to the Qualified Programs in 2001 was \$170 million (approximately 10 cents out of the 15-cent assessment). The Qualified Programs manage State or regional dairy product promotion, research, or nutrition education programs (**Tables 1-2 and 1-3**).

Some of these Qualified Programs participate in cooperative efforts conducted and coordinated by other Qualified Programs and/or other organizations such as DMI, the Dairy Board, and UDIA. Their goal in combining funding and coordinating projects is more effective and efficient management of producers' promotion dollars through larger, broad-based projects. For example, UDIA coordinates nationally through DMI the programs and resources for 19 federation members and their affiliated units to support the unified dairy promotion plan\*. (\*See Unified Marketing Plan as noted in Table 1-2).

**TABLE 1-2 Aggregate Income and Expenditure Data Reported by the 62 Active Qualified Programs to USDA**

	<b>2000</b> (in \$000's)	<b>2001</b> (in \$000's)
<b>INCOME</b>		
Carryover from Previous Years	50,085 <sup>1</sup>	53,422 <sup>1</sup>
Producer Remittances	169,996	170,585
Payments Transferred from Other Qualified Programs <sup>2</sup>	52,402	58,134
Payments Transferred to Other Qualified Programs <sup>2</sup>	(53,457)	(60,437)
Other <sup>3</sup>	<u>5,991</u>	<u>5,624</u>
<b>Total Adjusted Annual Income</b>	<b>225,017</b>	<b>227,328</b>
<b>EXPENDITURES</b>		
General & Administrative	7,375 [4.3%]	7,727 [4.5%]
Advertising & Sales Promotion	117,040 [69.0%]	77,015 [45.3%]
Unified Marketing Plan <sup>4</sup>	NA	50,362 [29.6%]
Dairy Foods & Nutrition Research	5,849 [3.4%]	4,859 [2.8%]
Public & Industry Communications	13,691 [8.1%]	11,314 [6.7%]
Nutrition Education	22,619 [13.3%]	15,077 [8.9%]
Market & Economic Research	1,787 [1.1%]	1,705 [1.0%]
Other <sup>5</sup>	<u>1,293 [0.8%]</u>	<u>1,908 [1.2%]</u>
<b>Total Annual Expenditures</b>	<b>169,654 [100%]</b>	<b>170,967 [100%]</b>
<b>Total Available for Future Year Programs</b>	<b>55,363<sup>1</sup></b>	<b>57,361</b>

<sup>1</sup> Differences are due to audit adjustments and varying accounting periods.

<sup>2</sup> Payments transferred between Qualified Programs differ due to different accounting methods and accounting periods.

<sup>3</sup> Includes interest, income from processors and handlers, sales of supplies and materials, contributions, and rental income.

<sup>4</sup> Unified Marketing Plan – Reported local spending by United Dairy Industry Association (UDIA) units participating in the Dairy Management Inc. unified marketing plan to fund national implementation programs.

<sup>5</sup> Includes capital expenses and contributions to universities and other organizations.

SOURCE: Aggregate income and expenditure data reported by the 62 active Qualified Programs to USDA.

**TABLE 1-3 Aggregate Advertising Expenditures Data Reported by the 62 Active Qualified Programs to USDA**

	<b>2000</b> (in \$000's)	<b>2001</b> (in \$000's)
<b>ADVERTISING PROGRAMS</b>		
Fluid Milk	50,195 [42.9%]	19,740 <sup>1</sup> [25.6%]
Cheese	58,865 [50.3%]	52,460 <sup>1</sup> [68.1%]
Butter	217 [0.2%]	141 [0.2%]
Frozen Dairy Products	748 [0.6%]	656 [0.9%]
Other <sup>2</sup>	<u>7,015 [6.0%]</u>	<u>4,017 [5.2%]</u>
<b>Total</b>	<b>117,040 [100%]</b>	<b>77,015<sup>1</sup> [100%]</b>

<sup>1</sup> Figure does not include local unified marketing plan advertising expenditures previously reported separately by individual UDIA units.

<sup>2</sup> Includes "Real Seal," holiday, multi-product, calcium, evaporated milk, food service, product donations at State fairs and other events and contributions for displays or promotional events.

SOURCE: Aggregate income and expenditure data reported by the 62 active Qualified Programs to USDA.

## National Fluid Milk Processor Promotion Board

The Fluid Milk Board, as authorized in the Fluid Milk Promotion Act of 1990 (Fluid Milk Act), administers a fluid milk promotion and consumer education program that is funded by fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase fluid milk consumption, and maintain and expand markets and uses for fluid milk products in the contiguous 48 States and the District of Columbia.

The Secretary of Agriculture appoints 20 members to the Fluid Milk Board. Fifteen members are fluid milk processors who each represent a separate geographical region, and five are at-large members. Of the five at-large members, at least three must be fluid milk processors and at least one must be from the general public. Three fluid milk processors and two public members serve as at-large members on the current Fluid Milk Board. The members of the Fluid Milk Board serve 3-year terms and are eligible to be appointed to two consecutive terms. Current Fluid Milk Board members are listed in **Appendix A-2**. A map of the Fluid Milk Board regions is shown in **Appendix B-2**.

The Fluid Milk Board elects four officers: Chair, Vice-Chair, Secretary, and Treasurer. Fluid Milk Board members are assigned by the Chair to the following committees: Advertising, Finance, Promotions, Public Relations/Medical and Scientific, Research, and Strategic Thinking. The program committees are responsible for setting program priorities, planning activities and projects, and evaluating results. The Finance Committee reviews all program authorization requests for funding sufficiency, the Fluid Milk Board's independent financial audit, and the work of the Board's accounting firm. The Fluid Milk Board met four times during its 2001 fiscal year.

The Fluid Milk Program is funded by a 20-cent per hundredweight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the contiguous 48 States and the District of Columbia. The program exempts from assessment those processors who process and market 3,000,000 pounds or less of fluid milk products each month, excluding fluid milk products delivered to the residence of a consumer. Assessments generated \$109 million in 2001. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California fluid milk processor promotion program. For 2001, the amount returned to California from the assessments was approximately \$10 million. The California fluid milk processor promotion program uses the funds to continue its promotion activities, which include the got milk?<sup>®</sup> advertising campaign.

The actual income and expenses for 1997-2001 are in **Appendix C-4**. The Fluid Milk Board's administrative expenses continued to be within the 5-percent-of-assessments limitation required by the Fluid Milk Order. USDA's oversight and evaluation expenses for 1997-2001 are in **Appendix C-5**. **Appendix C-6** contains the Fluid Milk Board's approved budgets for 1998-2002. **Appendix D-2** contains an independent auditor's reports for the period of January 1, 2001, through December 31, 2001.

The following summarizes Fluid Milk Board medical and scientific activities for the period of January 1, 2001, through December 31, 2001. The Fluid Milk Board's sponsorships, advertising, promotions, public relations, school marketing, and strategic thinking activities are incorporated in the National Fluid Milk Integrated Program summary.

### ***MEDICAL AND SCIENTIFIC***

The Fluid Milk Board has established a Medical Advisory Board (MAB) comprised of academic, medical, and health care professionals with expertise relevant to the health benefits of fluid milk. The MAB provided guidance to the Fluid Milk Board's development of key nutritional and health messages for consumers and health professionals. The MAB also reviewed nutrition and health messages for accuracy. The MAB members assisted the Fluid Milk Board in forging relationships with health organizations such as the American Heart Association, the National Medical Association, the American Dietetic Association, American Academy of Pediatrics, and the National Cancer Institute. They also appeared as medical professionals in the media, providing science-based statements supporting the health benefits of milk.

The medical and scientific activities of the Fluid Milk Board also included preparing press materials and acting as spokespersons on breaking research with relevance to fluid milk. The Fluid Milk Board created consumer and health professional materials to explain research in areas such as breast cancer, hypertension, and rickets. One of the health reports involved the reported cases of rickets among toddlers. Rickets is caused by a deficiency in vitamin D and calcium and leads to soft bones and poor growth in children. Milk is the only major nutritional source of vitamin D.

The Dietary Approaches to Stop Hypertension (DASH) diet continues to be a major focus of activity. Research on the DASH diet shows that by eating a diet rich in nonfat or lowfat dairy products and fruits and vegetables, many people can reduce their blood pressure with or without medication. In addition to the "Reduce Your Risk" and "The Diet-Blood Pressure Connection" brochures and press materials about DASH diets, the Fluid Milk Board implemented new initiatives on high blood pressure and lactose intolerance.

The Fluid Milk Board continues to spotlight the high incidence of high blood pressure among African Americans and to promote milk and milk products as a dietary solution as part of the DASH diet. The program also addresses misconceptions about lactose intolerance and shows why it should not be a barrier to including milk in the diet. The Board launched a new lactose intolerance initiative that focuses on educating African Americans on the importance of incorporating milk into their diet. The programs provided educational material on osteoporosis and lactose intolerance.

## **National Fluid Milk Integrated Program**

The Fluid Milk Board and DMI continued during 2001 to implement an integrated fluid milk marketing plan which is research-based, message-focused, and jointly managed. 2001 marks the third year of the totally integrated fluid milk marketing effort. The 2001 funding level totaled approximately \$163 million, with \$67 million from DMI and State and regional organizations and about \$96 million from the Fluid Milk Board.

The purpose of the integrated program is to positively change the attitudes and purchase behavior of the country regarding fluid milk. The 2001 fluid milk marketing plan was designed to continue marketing and promotional activities to promote and increase the consumption of fluid milk and to identify and support growth opportunities for the industry. Many communication mediums were used to accomplish this objective, including television and print advertising, public relations, promotions, and others. The program's target audiences include: kids and young teen girls and boys 6-14; teen girls and boys 15-17; adults 18-34; moms 18-34; and two specific ethnic target audiences – Hispanics and African Americans.

In 2001, the got milk?<sup>®</sup>/ Milk Mustache advertising campaign, which provides the basis for advertising activities and other program delivery methods, was continued. A description follows of the 2001 integrated program activities for the Fluid Milk Board and DMI.

### ***SPONSORSHIPS***

In 2001, the got milk?<sup>®</sup>/ Milk Mustache Campaign began leveraging a multi-year partnership with Walt Disney Corporation. The sponsorship provides a unique opportunity to raise milk's image among teens and young adults by highlighting the message that milk is a great beverage of choice for teens and for athletes of all ages. As part of the partnership, milk has been named "the official training fuel" of Disney's Wide World of Sports. Additionally, a centerpiece arena of Disney's Wide World of Sports<sup>™</sup> complex is named the "Milk House." The "Milk House," which has got milk?<sup>®</sup> signage and milk mustache posters prominently positioned throughout the complex, is a state-of-the art facility that includes nine venues. More than 40 Amateur Athletic Union national championships are held at the facility and it is home to and affiliated with many professional sports teams.

The Fluid Milk Board and DMI also partnered with the National Basketball Association (NBA) during 2001 as part of a multi-year sponsorship. Through this sponsorship, the Fluid Milk Board has an additional mechanism to reach teens with sports nutrition and growth messages. The partnership was used to enhance the Spring "Chocolate: The Wilder Side of Milk" feature-incentive promotion, which is discussed in the integrated promotion activity summary.

## ADVERTISING

The Fluid Milk Board and DMI integrated advertising program consists of both television and print advertising as well as media-driven promotions. The advertisements highlight specific, relevant, health-benefit messages about milk and its nutrient content, while media-driven promotions serve to extend the advertising campaign.

The first integrated television advertisements were launched in October 1999. During 2001, a national chocolate milk television advertising campaign and a national Hispanic advertising campaign were developed and launched. Prior to creativity concept development and testing, research was conducted on teen and Hispanic audiences to gain knowledge to assist in developing several concepts. The national chocolate milk television advertising campaign was launched as a major component of the marketing effort to increase milk consumption among teens. The chocolate milk commercials “Chocolatier” and “Gargle” communicate the unique taste of chocolate milk and remind teens how much they love the product. Both ads feature teens making chocolate milk in unusual ways and demonstrate the lengths to which teens will go to get it. Additionally, the “Sponge Bob Square Pants” and the “Power Puff Girls” ads, which target kids, also promote chocolate milk. The chocolate milk advertising campaign builds on the growing popularity of flavored milk products.

The first national Hispanic advertising campaign debuted as part of a new industry outreach to the ever-growing Hispanic market. The commercials entitled “Wind-Up-Toy”(2 versions) focus on the nutrient package of milk. The ads feature happy, active kids playing sports, skate-boarding, studying, and enjoying friends and family. The ads’ tagline “*Familia, Amor y Leche*” (Family, Love, and Milk) is used currently in California’s State-wide fluid milk advertising campaign.

Television and print advertising also continued to promote fluid milk. New commercials developed and launched during 2001 were “Loan Shark” and two “Milk Carton Guy” ads, which targeted the adult, teen, and kid audiences with health-benefit messages, and “Cyber Loot,” which supported the second national on-pack (cap) promotion. In addition to these commercials, “Super Heroes” and “Mario” ads also continued to run during 2001. These were originally developed and launched in 2000.

The Fluid Milk Board and DMI television expenditures totaled \$54.6 million. Total television advertising expenditures on each target audience were as follows: kids - \$9.4 million, teens - \$12.7 million, adults - \$31.5, million and Hispanics - \$1.0 million. **Table 1-4** provides a complete listing by target audience of the 2001 fluid milk television advertising.

---

**TABLE 1-4 2001 Fluid Milk Television Advertising**

---

<u>Kids Television</u>	<u>Teens Television</u>	<u>Adult Television</u>	<u>Hispanic Television</u>
Super Heroes	Chocolatier	Super Heroes	Wind Up Toy Kids (Mom)
MCG - Basketball	Gargle	Gargle	Wind Up Toy Kids (Kids)
MCG - Gym	Cyber Loot	Chocolatier	The Secret*
Sponge Bob Square Pants		MCG - Basketball	The Dragon Slayer*
Cyber Loot		MCG - Rest Home	Memories 1*
Mario		MCG - Gym	Memories 2*
		Loan Shark	Telephone TV*
		Cyber Loot	I Don't Know (Nese)*
			New Mother*
			Generation*

---

SOURCE: Dairy Management Inc. and the Fluid Milk Board. \* Indicates advertising developed by California and used by State and Regional Organizations. "MCG," where used means Milk Carton Guy.

---

In addition to television advertising, the integrated program completed a full year of fluid milk print advertising through the got milk?<sup>®</sup>/ Milk Mustache campaign. The campaign used celebrity advertising in over 100 magazines, outdoor billboards, and other print vehicles to deliver messages on osteoporosis, growth, active/energy, bone health, and other important nutritional benefits of drinking milk. The Fluid Milk Act and Fluid Milk Order state that the advertising coverage in each of the Board's regions is to be proportionate to funds collected from each respective region. The integrated program used outdoor billboards and regional magazines to fulfill this requirement. **Table 1-5** contains a complete listing of the 2001 fluid milk print advertisements.

The integrated program also continued "Moment ads" that work around special events and create an awareness of milk. Such ads included two "Super Bowl" ads, "Survivor II" winner ad, and "Make a Wish" ad, which was done in partnership with the Make a Wish Foundation.

The integrated program also was able to generate media-driven promotions from the magazines that are used to extend the campaign. These promotions were created to add a consumption-driven element to the advertising program. Some successful promotions included the fifth annual "Mad About Milk" photo contest in Seventeen Magazine, "Milk Mustache Mobile ESPN Nationwide Search" in ESPN The Magazine, and the "Scholar Athlete Milk Mustache of the Year" (SAMMY) Award. The SAMMY program, which continues to grow each year, rewards teenagers for academic, civic, and athletic excellence while encouraging them to incorporate more milk into their active lifestyles. The winners receive a \$7,500 college scholarship and appear in a milk mustache ad in USA Today, Sports Illustrated, and ESPN The Magazine. SAMMY has become the largest event of its type in the country.



## **PROMOTIONS**

The Fluid Milk Board and DMI conduct promotions to increase fluid milk sales in retail outlets. The promotions work to move more milk out of the grocery store refrigerator and to increase sales in other retail outlets such as convenience stores, independent grocery stores, drug stores, and mass merchandisers. Some of the promotions work with partners to increase the appeal of the program when appropriate. After carefully measuring the results of the numerous promotion strategies, promotion activity in 2001 focused on feature incentives – a promotion vehicle used to increase advertisements and displays of milk – and on-pack (cap) programs offering prizes directly to consumers to help drive incremental purchases.

The Fluid Milk Board and DMI conducted three national promotions. “Chocolate: The Wilder Side of Milk II” was the milk industry’s second national chocolate milk promotion designed to bring new consumers to the category and increase chocolate milk sales through feature advertisements and dairy aisle displays of chocolate milk. The March promotion leveraged the integrated milk marketing NBA partnership by providing special NBA/Chocolate Milk logo prizes. Over 1,600 retailers participated in the promotion representing over 28,000 stores.

The 5-week chocolate milk promotion surpassed the performance level of the 2000 event by generating increased sales of chocolate milk, white milk, and other flavored milk products. Chocolate milk sales increased more than 10% and weekly incremental sales of chocolate milk increased by 22% compared to data for 2000. Sales of white milk and flavored milk also increased during the March promotion period. Additionally, half of the consumers who purchased chocolate milk during the promotional period were new chocolate milk purchasers, and one-third of consumers continued to purchase chocolate milk at higher rates even after the promotion had ended. The promotion’s success is largely attributed to greater product availability and increased retailer participation. While the chocolate milk promotion was in stores, “The Slam Dunk Drink” cafeteria promotion was extended to 650 schools districts. The promotion, which promoted both chocolate and strawberry milk, reached 3.78 million middle and senior high school students and 4.62 million elementary school students.

The “Cyber Loot” national retail promotion was the second national cap promotion for the dairy industry. The integrated milk promotion included partners like America Online – which provided for an on-line game component – and Electronic Arts – a popular video game manufacturer. The promotion featured more than 300 million game pieces on white milk gallons and provided consumers a chance to win promotional discount coupons, free electronic games, and music cash certificates.

---

**TABLE 1-5 2001 Fluid Milk Print Advertising**

---

<b>Celebrity</b>	<b>Target</b>	<b>Theme</b>
Super Bowl (Trent Dilfer & Kerry Collins)	Men/Women/Teens	Active
Super Bowl (Trent Dilfer)	Men/Women/Teens	Active
Backstreet Boys	Teen Girls/Teen Boys	Osteoporosis
Britney Spears	Teens Girls/Teen Boys	Bone Growth
Cal Ripken, Jr.	Teen Boys/Men	Active
Carson Daly	Teen Girls/Teen Boys	Growth
Coaches (Joe Torres, Jeff Fisher, Pat Riley)	Men/Teen Boys	Active
Dixie Chicks	Moms/Women/Men	Strong Bones
Elton John	Women/Men	Osteoporosis
Erik Per Sullivan	Moms	Chocolate Milk
Kevin Garnett	Teen Boys	Bone Growth
Gisele Bundchen (English & Espanola)	Women/Men/Hispanics	Bone Growth
Jackie Chan	Men/Teen Boys	Bone Growth
Kurt Warner	Men/Teen Boys	Active
Marion Jones	Women/Teen Girls	Active
Marc Anthony	Teen Girls/Hispanics	Osteoporosis
Mat Hoffman	Teen Boys/Teen Girls	Chocolate Milk
Muhammed & Laila Ali	Women/Men	Active
Noah Wyle	Women	Bone Growth
Rulon Gardner	Kids/Men/Teen Boys	Active
Power Puff Girls	Kids/Teen Girls	Flavored Milk/Chocolate Milk
Ronald McDonald®	Moms/Kids/Hispanics	Bone Growth/Nutrient Package
Rugrats	Moms/Kids/Hispanics	Chocolate Milk
Sela Ward	Moms/Women	Osteoporosis/Bone Growth
Sponge Bob Square Pants	Teen Boys/Teen Girls Kids	Chocolate Milk
Super Mario	Moms/Kids	Bone Growth
Tony Meola	Teen Boys/Teen Girls	Active
Venus & Serena Williams	Women/Teen Girls	Active
Cyber Loot	Teens/Women	Promotional
Halloween Ad	Women/Men/Teens	Chocolate Milk
Pax Winner	Women	Osteoporosis
Santa Ad	Chocolate Milk	Women/Men/Teens
Survivor II Winner	Women/Men/Teens	Active

---

SOURCE: Fluid Milk Board.

---

The “Xtreme Flavors” back-to-school feature-incentive promotion, which featured all flavored milk products, was implemented in the fall 2001. Similar to the spring 2001 chocolate milk promotion, retailers were rewarded prizes for milk feature advertisements and dairy aisle displays of flavored milk products. The 5-week promotion was successful in generating a 22% increase in incremental flavored milk sales. The promotion also showed that flavored milk promotions do not negatively impact incremental sales of white milk gallons, which increased 6% compared to the pre-promotional event period. The promotion was also extended locally. With the participation of 1,000 school districts, it reached over 11 million elementary, middle, and high school students.

The Fluid Milk Board and DMI worked with State and regional organizations to get their promotions extended at the local level. Processors and Qualified Programs obtain the Fluid Milk Board's promotional, advertising, and public relations materials from the Processor Hotline at 1-800-945-MILK (6455). Additionally, a new milk reporting database was developed to provide both milk processors and State and regional representatives with valuable, timely information on milk promotion, sign-up compliance, and point-of-sale materials shipment confirmation. The database is located at [www.milkstatus.com](http://www.milkstatus.com).

Additionally, a new computerized database called "CPG Network" was also developed as an additional tool to assist milk processors and State and regional organizations in tracking their milk sales. The database, developed through a partnership with Information Resources Inc., tracks sales and merchandising trends in supermarkets and super centers and includes key pricing, promotion, and new product information.

## ***PUBLIC RELATIONS***

The public relations programs continued to focus on the nutritional benefits of milk, emerging scientific studies which highlight milk's benefits, leveraging the high interest generated by the celebrities and the got milk?<sup>®</sup> / Milk Mustache campaign, and preparing for and responding to misconceptions and negative news about milk or the educational campaign. A wide variety of initiatives were implemented to reach specific target audiences. During 2001, over 1.87 billion media impressions were garnered through the integrated public relations program. The program also provided support for three national retail promotions by helping to build public awareness and increase retailer participation.

In January 2001, the Fluid Milk Board and DMI launched the "got milk?<sup>®</sup> 3v3 Soccer Shootout Tour" to remind American families about the importance of drinking milk for an active lifestyle and to position milk as nature's sports drink with nine essential vitamins and minerals including calcium and protein. The 4-month tour, which visited 43 cities nationwide, provided individuals the opportunity to win \$1 million through an interactive soccer game. The tour was launched at a Sports Nutrition Summit at Disney's Wide World of Sports<sup>™</sup>, where a new Sports Nutrition Food Guide Pyramid was unveiled. The new pyramid promotes three to four servings of milk or dairy products every day as an important component of a healthy diet. Trainers, nutritionists, pediatricians, and athletes were also available at the event to provide health, nutrition, and fitness advice.

The "Chocolate Milk Mustache Mobile Taste Sensation Tour" educated Americans about the nutritional and taste benefits of chocolate and other flavored milk. Kids and their parents were encouraged to drink at least 3 glasses of milk each day to promote bone growth and to help protect against osteoporosis later in life. The 98-city tour provided a computer-based health assessment for adults that tested their bone density, a "calcium challenge" quiz on new interactive computer kiosks, and a milk mustache photo contest. Additionally, fitness experts assisted registered dietitians in conducting health consultations with consumers and in offering nutrition and fitness advice. Year 2001 was the fourth year of the tour.

The Fluid Milk Board and DMI's "School Principal Challenge" provided teens and parents with information on the vital role that calcium in milk plays during the prime bone-building years of teens. The program was launched at the National Association of School Principals Conference with a "Calcium Commitment" pledge adopted by school principals in attendance. As part of the campaign, dairy producer and processor promotion staff hosted a booth at the National Association of Secondary School Principals Annual Convention. The more than 4,000 high school principals in attendance were provided nutrition information kits with helpful tips for promoting better health and milk consumption at their schools.

The Fluid Milk Board and DMI also launched a new lactose intolerance initiative with emphasis on minority outreach to offer simple ways for consumers to include milk and dairy products in their diets.

Brochures and other information on milk were made available to consumers through the website [www.whymilk.com](http://www.whymilk.com).

### ***STRATEGIC THINKING***

The Fluid Milk Strategic Thinking Initiative (FMSTI) is a joint effort of the Fluid Milk Board, DMI, the Milk Industry Foundation, processors, and suppliers. This ongoing effort was established to address barriers to fluid milk consumption not targeted by the advertising, promotion, and public relations activities of the Fluid Milk Board and DMI. In 1998, the Task Force began a series of research projects on how to improve fluid milk sales in five priority areas including vending, home-meal replacement, nutraceuticals, convenience stores, and foodservice. The FMSTI is focusing on increasing and expanding the availability of milk in these marketing channels. The results of research released during 2001 are discussed below.

Initial vending research has identified opportunities for increased milk sales through vending machines. The Fluid Milk Board and DMI partnered with Maytag Commercial Solutions to place 100 milk vending machines in middle and high schools in five markets across the United States. The 5-month milk vending test was conducted to determine whether school vending is a viable business opportunity for processors. The test measured the velocity of sales to determine the demand, sales, and profit potential of vending machines placed in schools. The milk vending test revealed a strong interest from students and a promising new market opportunity for the milk industry. The study proposes that if school milk vending were widespread, it could potentially increase school milk consumption by 131 million single-serve units per year. Milk vending provides an immediate sales and profit opportunity for processors and provides an additional out-of-home consumption channel to market single-serve fluid milk products to teens.

Also released in mid-2001 was a comprehensive three-part nutraceuticals report which identified possible functional food opportunities that exist for fluid milk products. The report revealed 12 ingredients that potentially could be added to milk to create milk-based functional food products. Functional foods are

foods that provide certain health benefits beyond basic nutrition. Results from this research can be used to assist processors in developing fluid-milk based nutraceutical products. Phase two of the study, which begins in 2002, will explore consumer acceptance of the fortification concepts identified in phase one.

FMSTI currently is conducting a new market test in foodservice to develop proven ways to increase foodservice channel milk sales. An advisory board of milk processors, food service distributors, and restaurant operators has been comprised. The test is structured to address a number of questions relating to the marketability of milk in the food service channel. A report of the test results should be available in 2002.

## ***SCHOOL MARKETING***

The National Dairy Council® ([www.nationaldairycouncil.org](http://www.nationaldairycouncil.org)), whose programs are managed by DMI, works with school foodservice professionals and teachers to raise student awareness of the importance of having milk and dairy products as a part of a healthy lifestyle. As noted earlier in the promotions section, several integrated milk programs were extended into schools through school foodservice professionals using posters and other tie-in activities. For example, as a part of the “Chocolate: The Wilder Side of Milk II” retail promotion, the National Dairy Council® and the American Dairy Association® successfully implemented “The Slam Dunk Drink” cafeteria promotion in 650 school districts. The promotion, which promoted both chocolate and strawberry milk, reached 3.78 million middle and senior high school students and 4.62 million elementary school students.

Another successful tie-in activity included the “Xtreme Flavors” back-to-school feature-incentive promotion. This promotion featured all flavored milk products and was implemented in the fall 2001. The National Dairy Council® and the American Dairy Association® were able to garner support and participation from over 1,000 school districts (over 21,000 schools), and it reached over 11 million elementary, middle, and high school students.

Reaching kids through the classroom with various programs continues to be the focus of nutrition education efforts. “Pyramid Café®” and “Pyramid Explorations™,” targeted to second and fourth grades, reach over 12 million students with messages that milk and dairy products are a key part of a healthy diet. Survey results continue to show a very high utilization rate for these two programs, currently at over 70% of the instructors that have the programs. In addition, 10 lessons featuring Chef Combo were adapted for use on the Nutrition Explorations website, that had 90,219 visitors during 2001, an average of 7,500 visitors per month.

Combined websites [www.familyfoodzone.com](http://www.familyfoodzone.com) and [www.nutritionexplorations.org](http://www.nutritionexplorations.org) continue to deliver valuable resources to teachers, school foodservice professionals, and consumers. The site includes lesson plans for educators, resources for school foodservice directors, ideas for smart eating for families, and fun activities for kids. In 2001, [www.nutritionexplorations.org](http://www.nutritionexplorations.org) delivered over 70,000 lesson plans,

3 million dairy impressions, and also received another World Wide Web Health Award. The World Wide Web Health Awards, organized by the Health Information Resource Center, recognizes the best health-related web sites for consumers and professionals each year. This site has won the award every year since 1999.

### ***OTHER RESEARCH***

2001 milk-related nutrition and product research was conducted in the following areas:

1. The role of milk and milk products in the prevention of colon cancer and reduction of blood pressure.
2. Establishing the genetic basis for the activity of probiotic cultures.
3. Demonstration of milk consumption by teens to meet their calcium needs without adversely affecting weight.
4. The role of milk and calcium in the diet of kids and moms.
5. Investigation of added value of fortification through the use of probiotics, nutraceuticals, nutrient delivery, and flavor enhancement.
6. Extended shelf life and shelf stability at ambient temperatures.
7. The impact of differing milk options and experiences in schools on childhood fluid milk consumption behavior and attitudes.

## **CHAPTER 2**

### **UNITED STATES DEPARTMENT OF AGRICULTURE**

Dairy Programs of the U.S. Department of Agriculture's (USDA) Agricultural Marketing Service (AMS) has the day-to-day oversight responsibilities for the National Dairy Promotion and Research Board (Dairy Board) and the National Fluid Milk Processor Promotion Board (Fluid Milk Board). Dairy Programs oversight activities include reviewing and approving the Dairy and Fluid Milk Boards' budgets and budget amendments, contracts, advertising campaigns, and investment plans. Approval of program materials is also a responsibility of USDA. Program materials are monitored for conformance with their respective Acts and Orders and with other legislation such as the Nutrition Labeling and Education Act.

Dairy Programs continues to insure that the collection, accounting, auditing, and expenditure of generic promotion funds is consistent with the enabling legislation and orders; to qualify State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs); and to provide for evaluation of the effectiveness of both programs' advertising campaigns. USDA also assists the Boards in their assessment collection, compliance, and enforcement actions. Other USDA responsibilities relate to the nominating and appointing of Board members, amending the orders, conducting referenda, and conducting periodic program audits. USDA representatives attend full Board and Board committee meetings.

### **National Dairy Promotion and Research Board Oversight**

#### ***NOMINATIONS AND APPOINTMENTS***

The 36 members of the Dairy Board who administer the program serve 3-year terms, with no member serving more than two consecutive terms. Dairy Board members are selected by the Secretary of Agriculture from nominations submitted by producer organizations, general farm organizations representing other producers, Qualified Programs, or other interested parties.

Forty-four nominations were received by USDA for the 12 Dairy Board members whose terms expired October 31, 2001, and one for a Dairy Board vacancy. A press release issued on October 3, 2001, announced the appointment of nine new members and four incumbents. All except one will serve three year terms ending October 31, 2004. Newly appointed members were: Marlin J. Rasmussen, St. Paul, Oregon (Region 1); Robert R. Bignami, Chico, California (Region 2); Margaret A. Gambonini, Petaluma, California (Region 2); Patricia M. Van Dam, Chino, California (Region 2); Rosalie M. Geiger, Reedsville, Wisconsin (Region 6); Alice S. Moore, Frazeyburg, Ohio (Region 9); Deborah A. Benner, Mt. Joy, Pennsylvania (Region 11); and David E. Hardie, Lansing, New York (Region 12). Re-appointed to serve

second terms were: William R. Ahlem, Jr., Hilmar, California (Region 2); Steve P. Frischknecht, Manti, Utah (Region 3); Lynda S. Foster, Ft. Scott, Kansas (Region 4); and Robert K. Herman, Taylorsville, North Carolina (Region 10).

There was one resignation from the Dairy Board in 2001. Ruth I. Laribee, Lowville, New York (Region 12), resigned and was replaced by Audrey G. Donahoe, Frankfort, New York. Her term expires October 31, 2002.

Lists of current Dairy Board members appear in **Appendix A-1**. **Appendix B-1** is a map of the contiguous 48 States depicting the 13 geographic regions under the Dairy Promotion and Research Order (Dairy Order).

### ***FOREIGN AGRICULTURAL SERVICE***

The Secretary of Agriculture has delegated oversight responsibility for all foreign market development activities outside the United States to the Foreign Agricultural Service (FAS) (7 CFR 2.43(a)(24)). FAS reviews the U.S. Dairy Export Council's (USDEC) foreign market development plan and related export contracts. USDEC export contracts also are reviewed by AMS Dairy Programs to ensure conformance with the Dairy Production Stabilization Act of 1983 (Dairy Act) and Dairy Order and with established policies. The USDA's Foreign Market Access Program and the Market Promotion Program provided matching funds to USDEC for dairy product promotion and market research in Japan, Mexico, Southeast Asia, South Korea, and Latin America.

### ***CONTRACTS***

The Dairy Act and Dairy Order require that all contracts expending producer funds be approved by the Secretary (7 CFR 1150.140). During 2001, USDA reviewed and approved 172 Dairy Board and Dairy Management Inc. (DMI) agreements, amendments, and annual plans. Funding approvals were from the 1996, 1997, 1998, 1999, 2000, and 2001 fiscal periods. See **Appendix E** for the contractors and the initiatives approved by USDA during 2001.

### ***CONTRACTOR AUDITS***

During 2001, DMI retained the certified public accounting firm of KPMG Peat Marwick to audit the records of the following entities for projects in dairy foods research, media and advertising services, marketing research services, public relations services, and export (through USDEC): California Dairy



Research Foundation, Bozell Worldwide Inc., Wirthlin Worldwide, Fleishman Hillard, Contacts International Consulting Ltd., and National Milk Producers Federation, respectively. DMI is implementing the audit recommendations for improving management and internal controls over contracts.

## ***COLLECTIONS***

The Dairy Act specifies that persons who pay producers and producers marketing milk directly to consumers, commonly referred to as "responsible persons," shall remit assessments to the Dairy Board or to Qualified Programs for milk produced in the United States and marketed for commercial use.

The Dairy Act provides that dairy farmers can direct up to 10 cents of their 15-cent per hundredweight assessment to Qualified Programs. During 2001, the Dairy Board received about 5.11 cents of the 15-cent assessment.

## ***COMPLIANCE***

Compliance by responsible persons in filing reports and remitting assessments continues in a timely manner and at a high rate. Only minor differences were discovered when comparing the audit results to what was reported by the responsible persons. The Dairy Board also verifies that the credits claimed by responsible persons are actually sent to Qualified Programs. This verification is done by contracts with each Qualified Program.

When non-compliance exists, the Dairy Board takes initial action on the matter. If the Dairy Board is unsuccessful in resolving the violation, the matter is referred to USDA for further action.

## ***QUALIFIED PROGRAMS***

USDA reviewed applications for continued qualification from 62 Qualified Programs. A list of the 62 active Qualified Programs is provided in **Appendix G**. In line with its responsibility for monitoring the Qualified Programs, USDA obtained and reviewed income and expenditure data from each of the Qualified Programs. The data reported from the Qualified Programs are included in aggregate form for 2000 and 2001 in **Tables 1-2** and **1-3**.

## **National Fluid Milk Processor Promotion Board Oversight**

### ***NOMINATIONS AND APPOINTMENTS***

The 20 members of the Fluid Milk Board serve 3-year terms, with no member serving more than two consecutive terms. Fluid Milk Board members who fill vacancies with a term of 18 months or less are permitted to serve two additional 3-year terms. Fluid Milk Board members are selected by the Secretary from nominations submitted by fluid milk processors, interested parties, and eligible organizations. In a news release issued on July 10, 2002, the Secretary of Agriculture announced five new appointments and three reappointments to the Fluid Milk Board. Newly appointed members were: Joseph Cervantes, Binghamton, New York (Region 4); James S. Jaskiewicz, Lakeland, Florida (Region 5); Gary L. Aggus, Springfield, Missouri (Region 11); Lawrence V. Jackson, Pleasanton, California (Region 12); and Charles D. Price, Johnstown, Pennsylvania (At-Large Processor). Reappointed to serve second terms were: Mary Ellen Spencer, Chelsea, Massachusetts (Region 2); Roger D. Capps, Carlinville, Illinois (Region 8); and Ronald M. Foster, Modesto, California (Region 14). The newly appointed and reappointed members were seated at the July 11-13, 2002, Fluid Milk Board meeting.

Five vacancies occurred on the Fluid Board, due to company mergers and one resignation. The Fluid Milk Promotion Order provides that no company shall be represented on the Board by more than three representatives. The vacancies were: Sylvia C. Oriatti, Rosemont, Illinois (Region 3); Alan L. Faust, Cincinnati, Ohio (Region 6); Michael H. Leb, Walnut Creek, California (Region 12); and Ann Puelz Ocana, Phoenix, Arizona (At-Large Processor). The vacancies were filled by: Michael F. Nosewicz, Cincinnati, Ohio; William R. McCabe, Orrville, Ohio; Lawrence V. Jackson, Pleasanton, California; and Michael A. Krueger, Phoenix, Arizona, respectively.

A list of current Fluid Milk Board members appears in **Appendix A-2**. **Appendix B-2** shows a map depicting the 15 geographic regions under the Fluid Milk Promotion Order (Fluid Milk Order).

### ***PROGRAM DEVELOPMENT***

The Fluid Milk Board contracted with the International Dairy Foods Association (IDFA) to manage the program. IDFA contracted with Bozell Worldwide, Inc., Weber Shandwick, Inc., Marketing Drive Worldwide, Inc. (formerly McCracken Brooks Communications, Inc.), and Flair Communications, Inc., to develop the Fluid Milk Board's advertising, consumer education/public relations, and promotion programs, respectively.

### ***CONTRACTOR AUDITS***

The Fluid Milk Board retained the certified public accounting firm of Synder, Cohn, Collyer, Hamilton & Associates P.C. to audit the records of Bozell Worldwide, Inc., to determine if the agency had conformed to the financial compliance requirements specified in their agreement with the Board for the period of January 1, 2000, through December 31, 2000. Results of the audit were favorable in some areas such as systems of internal controls but identified inconsistencies regarding expenditures and commissions billed to the Board. The Board has worked with Bozell Worldwide, Inc. to resolve the issues noted in the compliance audit. The Board is continuously working to enhance its internal contract control system to ensure that the amounts invoiced to the Board are in compliance with established contracts and procedures.

### ***COMPLIANCE***

Compliance by fluid milk processors in filing reports and remitting assessments continues in a timely manner and at a high rate. During this fiscal period, there have been no new cases of delinquent accounts referred to USDA.

## **CHAPTER 3**

### **IMPACT OF GENERIC FLUID MILK AND DAIRY ADVERTISING ON DAIRY MARKETS: AN INDEPENDENT ANALYSIS**

The Dairy Production and Stabilization Act of 1983 (Dairy Act; 7 U.S.C. 4514) and the Fluid Milk Promotion Act of 1990 (Fluid Milk Act; 7 U.S.C. 6407) require a yearly independent analysis of the effectiveness of milk industry promotion programs. These promotion programs operate to increase milk awareness and thus the sale of fluid milk and related dairy products. From 1984 to 1994, the U.S. Department of Agriculture (USDA) was responsible for the independent evaluation of the National Dairy Promotion and Research Program (Dairy Program), as authorized by the Dairy Act, and issued an annual report to Congress on the effectiveness of the Dairy Program. Beginning in 1995, the Congressional report began including third-party analyses of the effectiveness of the Dairy Program in conjunction with the National Fluid Milk Processor Promotion Program (Fluid Program) authorized by the Fluid Milk Act. While both programs utilize various types of marketing strategies to increase fluid milk and cheese consumption, this report focuses solely on media advertising impacts since advertising remains the most important marketing activity. In addition, data limitations on non-advertising promotion activities need to be addressed for future modeling purposes. The effects of fluid advertising under both programs are combined because the objectives of both programs are the same and data cannot be satisfactorily segregated to evaluate the two programs separately. An evaluation of the effectiveness of cheese advertising by the Dairy Program, however, is conducted separately.

Most economic models (including those used in past Reports to Congress) used to evaluate the effects of generic advertising programs over time measure the average impacts of various factors on demand. These “constant-parameter” models can be problematic when the time period covered is relatively long and the marketing environment has sufficiently changed. For example, the results of last year’s report were based on data for the years 1975-2000, i.e., the effect of generic fluid milk and cheese advertising was measured as an average over this 26-year period. A mean-response model of generic advertising may not accurately convey the current degree of advertising effectiveness given changes in market environments, population profiles, and eating behavior over time. In addition, advertising messages have changed, conversion of state to nationally run programs has occurred, and additional groups (e.g., milk processors) have contributed to the national program since the inception of generic advertising programs.

An alternative approach to measure the impacts of advertising, given a long history of time series data, is to use a “time-varying parameter” model. These types of models measure how the impact of demand factors, including generic advertising, vary over time. In this year’s report such a model is adopted and, consequently, one can examine how the effectiveness of generic fluid milk and cheese advertising has changed over time. Moreover, the model is able to identify important factors that have influenced the changes in advertising effectiveness over time. The model used is unique in its level of disaggregation of the U.S. dairy industry. For instance, the dairy industry is divided into retail, wholesale (processing), and farm markets, and the retail and wholesale markets include fluid milk and cheese separately. The model simulates market conditions with and without the Dairy and Fluid Programs.

The following summarizes the findings of the report. Copies of the complete evaluation report may be obtained from Cornell University, USDA, Dairy Management Inc., the National Dairy Promotion and Research Board, or the National Fluid Milk Processor Promotion Board.

## **HIGHLIGHTS**

Generic fluid milk and dairy product advertising conducted under the Dairy and Fluid Programs had a major impact on dairy markets. Over the period 1997-2001, on average, the following market impacts would have occurred if the advertising under the Fluid Program had not been in effect, and advertising under the Dairy Program was equal to its level the year prior to the enactment of the national mandatory program<sup>1</sup>:

- Fluid milk consumption would have averaged 4.5 percent lower annually.
- Cheese consumption would have averaged 1.0 percent lower annually.
- Total consumption of milk in all dairy products would have averaged 1.9 percent, or roughly 3.6 billion pounds of milk fat equivalent, lower annually.
- The average price received by dairy farmers would have averaged 6.9 percent, or \$0.96 per hundredweight, lower annually.
- Commercial milk marketings by dairy farmers would have averaged 1.9 percent lower annually.

Over the same period, the following market impacts would have occurred if the Dairy Program were not in existence but the Fluid Program were, and advertising expenditures by dairy farmers were equal to the level that existed the year prior to enactment of this program:

- Fluid milk consumption would have averaged 1.1 percent lower annually.
- Cheese consumption would have averaged 1.1 percent lower annually.
- Total milk consumption of all dairy products would have averaged 0.8 percent, or roughly 1.3 billion pounds of milk fat equivalent, lower annually.
- The average price received by dairy farmers would have averaged 1.7 percent, or \$0.23 per hundredweight, lower annually.
- Commercial milk marketings by dairy farmers would have been 0.8 percent lower annually.
- The average benefit-cost ratio (BCR) for the Dairy Program was 6.26, meaning that each dollar invested in fluid milk and cheese advertising returned \$6.26 in revenue to dairy farmers on average.

---

<sup>1</sup> It is important to note that there was generic milk and cheese advertising conducted by some states prior to passage of the 1983 Dairy Production Stabilization Act, which authorized the Dairy Program. As such, to measure the advertising impacts of the Dairy Program, this study simulated and compared market conditions with the Dairy Program versus market conditions reflecting advertising funding levels prior to when the Dairy Program was enacted. Throughout this report, any scenario referring to the absence of the Dairy Program reflects advertising funding at levels prior to enactment of the Dairy Program.

## ***FACTORS AFFECTING THE DEMAND FOR FLUID MILK AND CHEESE***

Because there are many factors that influence the demand for fluid milk and cheese besides advertising, an econometric model was used to identify the effects of individual factors affecting the demand for these products. The following variables were included as factors influencing per capita fluid milk demand: the Consumer Price Index (CPI) for fluid milk, the CPI for non-alcoholic beverages used as a proxy for fluid milk substitutes, per capita disposable income, the percentage of the U.S. population less than six years old, the percentage of the U.S. population that is African American, variables to capture seasonality in fluid milk demand, a trend variable to capture changes in consumer tastes for fluid milk over time, expenditures on brand fluid milk advertising, and expenditures on generic fluid milk advertising. The following variables were included as factors influencing per capita cheese demand: the CPI for cheese, the CPI for meat used as a proxy for cheese substitutes, per capita disposable income, per capita food away from home (FAFH) expenditures, the percentage of the U.S. population that is Asian/Other (specifically, non-White and non-African American); the percentage of the U.S. population between 20 and 44 years old, variables to capture seasonality in cheese demand, a trend variable to capture changes in consumer tastes for cheese over time, expenditures on brand cheese advertising, and expenditures on generic cheese advertising.

The model was estimated with national quarterly data from 1975 through 2001. To account for the impact of inflation, all prices and income were deflated. Brand and generic fluid milk and cheese advertising expenditures were deflated by the Media Cost Index. Because advertising has a carry-over effect on demand, past advertising expenditures also were included in the model as explanatory variables using a distributed-lag structure.

Unlike most previously used “constant-parameter” models that measure the average impact each of the above factors has on milk and cheese demand, the “time-varying parameter” model used in this report measures each demand factor’s impact on a quarterly basis. Moreover, the model used here is able to identify what factors were most important to the variation of advertising response over time. This is advantageous since the model not only allows one to measure the magnitude of each factor on demand, but also how that magnitude has changed and what has impacted this change over time.

The relative impacts of variables affecting demand are represented with what economists call “elasticities.” Elasticities measure the percentage change in per capita demand given a one percent change in one of the identified demand factors. **Table 3-1** presents the estimated elasticity values for the primary demand factors for fluid milk and cheese averaged over the most recent five-year period. For example, the price elasticity of demand for fluid milk equal to -0.136 means that a one percent increase in the real, inflation-adjusted fluid milk price decreases per capita fluid milk demand by 0.136 percent. While **Table 3-1** presents these elasticities as 5-year averages, discussion in the text and various figures that follow display how these elasticities have varied annually over time. While the principal focus of this report is on generic advertising elasticities for fluid milk and cheese, it also is important to examine the relative importance of the other factors that affect per capita demand.

### **Fluid Milk**

Since 1997, the primary factors that have influenced per capita fluid milk demand are: (1) the percentage of the population under six years of age, (2) per capita disposable income, (3) the percentage of the population that is African American, and (4) retail fluid milk price. However, most of these elasticities have changed considerably over time. Price response for fluid milk increased relatively modestly through the first two-thirds of the 1975-2001 sample period, ranging from approximately  $-0.05$  in the mid-1980s to  $-0.18$  in the early 1990s (**Figure 1**). Since then, price response has decreased slightly to its current level of  $-0.12$ . This relatively modest level of price response for fluid milk is similar to other estimates in the literature.

Somewhat surprising has been fluid milk demand response to income changes over time. While average income elasticities for fluid milk remain below that for cheese (**Table 3-1**), increases in income elasticities over time for fluid milk and cheese were quite similar (**Figure 2**). Since 1997, a one percent increase in disposable income has resulted in an average 0.64 percent increase in per capita fluid milk demand. See Table 4-1.

While the youngest-age cohort in the United States still remains an important factor affecting fluid milk demand, reductions in the proportionate size of this cohort since the mid-1990s appear directly correlated with reductions in this elasticity from around 1.30 in 1994 to 0.80 currently (**Figure 3**). For every one percent decline in the proportion of the U.S. population less than six years old, there has been a 0.92 percent average decrease in per capita fluid milk demand since 1997 (**Table 3-1**).

Lower per capita fluid milk demand of African Americans relative to the rest of the population is well recognized. Since 1997, a one percent increase in the proportion of the population that is African American has resulted in an average decrease in per capita fluid milk demand of  $-0.24$  (**Table 3-1**). A doubling in the level of response has occurred over time, ranging from approximately  $-0.10$  early in the sample period to  $-0.30$  in 1994-95, then rebounding to around  $-0.20$  in 2001 (**Figure 4**).

### **Cheese**

The primary factors influencing per capita cheese demand include: (1) per capita disposable income, (2) the percentage of the population between 20 and 44 years of age, (3) the percentage of the population that is Asian/Other, (4) retail cheese price, and (5) per capita expenditures on FAFH. As with fluid milk, cheese demand is becoming increasingly responsive to changes in per capita disposable income. Since 1997, a one percent increase in the per capita disposable income resulted in an average increase in per capital demand of 0.75 percent (**Table 3-1**). This factor has shown strong growth since the mid-1980s, but the level since the mid-1990s has been relatively constant (**Figure 2**). Even so, the relatively high income elasticities for fluid milk and cheese currently are intuitively attractive to future changes in per capita demand as real income levels continue to increase.

The retail cheese price also has an important impact on cheese demand. Since 1997, a one percent increase in the real cheese price has resulted in a 0.46 percent average decrease in cheese demand (**Table 3-1**). While price elasticities for fluid milk have been relatively constant over time, cheese price elasticities have demonstrated an increasing trend (**Figure 1**). Price elasticities for cheese since the early-1990s have been more variable but have remained between  $-0.40$  and  $-0.50$ . The increase in price response from cheese may, in part, be due to consumers dining out more, arguably a more price-sensitive market. However, recent increases in the levels of price responsiveness also may be due to increases in average prices faced by consumers.

Both population variables included in the model (i.e., the proportion of the population between 20 and 44 years of age and the proportion of the population that is Asian/Other) had an important impact on cheese demand. Since 1997, a one percent increase in the proportion of the U.S. population between 20 and 44 years of age resulted in a 0.59 percent average increase in cheese demand (**Table 3-1**). The importance of this factor, which indicates that middle-aged people eat more cheese relative to the rest of the population, demonstrated a consistent increase during the decade of 1980s; however, since then response levels have been relatively constant (**Figure 3**). Since 1997, a one percent increase in the proportion of the Asian population resulted in a 0.56 percent average increase in cheese demand (**Table 3-1**). Changes in the level of response to this variable show slow but steady growth over the time period evaluated (**Figure 4**).

Given that approximately two-thirds of national cheese disappearance is consumed in sectors away from home, it is not surprising that per capita expenditures on FAFH is related to per capita cheese demand. Since 1997, a one-percent increase in per capita expenditures on FAFH resulted in a 0.20 percent average increase in cheese demand (**Table 3-1**). However, even though real expenditures on FAFH have been increasing over time, the level of demand response has been decreasing. Elasticities for this variable were in excess of 0.50 early in the 1975-2001 sample period, compared with 0.20 in 2001 (**Figure 5**).

Branded advertising expenditures did not significantly contribute to the explained variation in either the fluid milk or cheese demand models. While any advertising objective includes increasing sales, branded advertising efforts are heavily concentrated on gaining market share from their competitors, which may, in effect, have no impact on total sales. Branded fluid milk advertising expenditures are relatively small compared to their generic counterparts; however, cheese is just the opposite, with considerably more branded advertising expenditures. In any event, neither model exhibited a response on per capita demand that was significantly different from zero.

While branded advertising efforts did not demonstrate significant impacts on overall demand, generic advertising was positive and significant for both fluid milk and cheese demand. The time-varying advertising elasticities show substantial variation over time, with both increasing considerably since the beginning of the 1975-2001 sample period (**Figure 6**). Since 1995, however, both fluid milk and cheese generic advertising elasticities have demonstrated modest decreases.



Both products show significant increases in advertising elasticities following the inception of the Dairy Program in 1984, with each reaching their highest levels around 1994. Fluid milk generic advertising elasticities increased from 0.02 at the beginning of the sample period in 1977 to nearly 0.06 in 1994. Currently, the fluid milk generic advertising elasticity is around 0.04. Generic advertising elasticities for cheese ranged from 0.005 to 0.045 over the same time frame and are currently at levels very similar to that for fluid milk generic advertising. A similar increase in advertising response was not exhibited following the addition of advertising expenditures from the Fluid Program in 1995. This may be due, in part, to the fact that the Fluid Milk Board expenditures are combined with the Dairy Program fluid milk expenditures in the economic model, and while total fluid milk advertising expenditures have increased with the inception of the Fluid Program, Dairy Program expenditures on fluid milk have been reduced somewhat as advertising dollars were shifted to cheese advertising.

It is important to note that past constant-parameter advertising studies have consistently shown advertising elasticities for cheese demand below that for fluid milk demand. Response levels over the entire sample period clearly exhibit this characteristic as well. However, since the mid-1990s fluid milk and cheese generic advertising elasticities have been very similar. In fact, since 1997, a one percent increase in generic advertising for fluid milk resulted in an average 0.042 percent increase in per capita fluid milk demand, compared with an average elasticity for generic cheese advertising of 0.039 (Table 3-1).<sup>2</sup>

### ***FACTORS AFFECTING GENERIC ADVERTISING EFFECTIVENESS***

The model used in this study is able to measure how changes in variable levels have impacted generic advertising effectiveness over time. That is, allowing advertising response to vary over time is important and beneficial, but knowing what factors contributed to that variation, and by how much, provides valuable information for crafting future advertising strategies or altering target audiences. We can define these impacts mathematically from the time-varying parameter model specification, and we refer to them as *generic advertising response elasticities* – in essence, an elasticity of an elasticity! Specifically, the generic advertising response elasticity measures the percentage change in the generic advertising elasticity given a one percent change in the variable of interest. For example, how are generic advertising elasticities affected by changes in real income or by changes in food expenditure patterns? The signs of the generic advertising response elasticities provide useful information for product marketers in crafting future market strategies. Furthermore, by using the actual changes of the included variables, we can estimate the relative impacts of these variables on estimated changes in advertising elasticities.

---

<sup>2</sup> It is hypothesized that advertising of pizza and cheeseburgers has a positive effect on the consumption of cheese. Such variables were not included in the model due to a lack of data. Assuming pizza and cheeseburger advertising has a significantly positive effect on cheese consumption, omission of these variables could result in the impact of generic cheese advertising being somewhat overstated.

Advertising response elasticities were computed and averaged over the time period of 1997-2001 and are presented in **Table 3-2**. The relatively low standard deviations indicate that these response elasticities have been quite constant over the time period evaluated. The response elasticities do, however, differ considerably between fluid milk and cheese. Price effects were negative in both cases; however, the generic advertising response elasticity for cheese was considerably higher than that for fluid milk. The negative signs indicate that advertising is more effective during periods of lower product prices. As such, coordinating advertising efforts with price promotions would be an effective strategy to increase overall advertising response.

Increasing income levels have increased the effectiveness of both fluid milk and cheese advertising, although the effect was nearly 40% higher for cheese. The generic advertising response elasticity for income was similar in magnitude to the price effect for cheese, but considerably higher for fluid milk. The relatively large numbers and positive signs indicate that designing advertising messages targeting middle- and high-income levels would be an effective strategy to increase overall generic advertising response.

The negative response elasticity for FAFH expenditures indicates that as per capita expenditures on FAFH increase, the overall response to the generic cheese advertising message is reduced (**Table 3-2**). This may be due to the fact that while two-thirds of cheese disappearance is away from home, nearly all generic cheese advertising is focused on at-home consumption. As such, the advertising message is not effective at getting consumers to eat more cheese in the away-from-home market. As such, it is reasonable to expect that as consumers spend more of their budget away from home, the current generic cheese advertising message becomes less effective. Given the importance of cheese disappearance from the away-from-home sector, future direction of advertising campaigns specifically directed to this market may improve response to the generic message.

Both age composition advertising response elasticities for fluid milk and cheese were large and positive (**Table 3-2**). While we saw earlier that there exists a positive demand relationship between per capita cheese consumption and the proportion of the population between 20 and 44 years of age, the positive generic cheese advertising response elasticity indicates that this cohort also is more responsive to the generic advertising message. A similar relationship exists for the fluid milk category and proportion of the population under age six. It follows then that advertising strategies targeted towards these cohorts would be an effective approach to increase generic advertising response. That is, targeted messages to middle-aged consumers for cheese and to adults with young children (the implied decision makers for the youngest cohort) would be expected to increase per capita advertising response to these programs.

Finally, both race-related advertising response elasticities for fluid milk and cheese are of the same sign as their respective demand elasticities. That is, as the proportion of African Americans in the population increases, there is both a negative demand effect for fluid milk as well as decreased advertising response. Similarly, the positive demand impact of increases in the Asian population is reinforced with increases in

advertising elasticities. From an advertising perspective for cheese, this is a “win-win” situation. The Asian population proportion has increased approximately 11% since 1997 and it appears that this segment of the population is more responsive to the generic advertising message.

The advertising response elasticities highlighted in **Table 3-2** indicate changes in generic advertising elasticities for marginal (i.e., small) changes in the associated variables. However, the resulting effect on changes in the generic advertising elasticity depends on both the level of the response elasticity as well as the actual change in the level of these variables over time. To evaluate the relative contributions of changes in these markets and demographic variables on recent changes in generic advertising elasticities, we multiply the percentage changes in these variables over the time period of 1997-2001 by the associated response elasticity in **Table 3-2**. The result of this decomposition is exhibited in **Figure 7**.

Looking at the generic advertising response elasticities in this framework indicates that decreases in the proportion of the population under age six and increases in per capita income have had the largest impacts on variation in advertising response for fluid milk over the last five years (**Figure 7**). Even though the age advertising response elasticity was positive, the negative contribution of the age cohort effect is due to the fact that the proportion of the population in this cohort has decreased since 1997.

The effect of price changes over this time period on variation in generic advertising elasticities for fluid milk was about one-half of that exhibited by the other two variables, and race effects (via changes in the proportion of the African American population) were minimal. This is similar to the ranking of advertising response elasticities in **Table 3-2**; however, the actual African American race impact was reduced given its small change over the time period (i.e., around 2%). The combined negative contribution of the price, age, and race effects slightly outweigh the positive income contribution and reflects the modest reduction in the generic fluid milk advertising elasticities since 1997.

The largest contributors to the variation in generic cheese advertising response were due to increases in per capita income levels (positive) and per capita FAFH expenditures (negative), with each factor substantively negating the effect of the other (**Figure 7**). That is, advertising gains from increases in real per capita income were largely offset by increases in per capita FAFH expenditures. Race, price, and middle-aged cohort effects were also significant but well below those of the income and FAFH effects. These rankings are somewhat different than exhibited by the response elasticities in **Table 2**.

While the generic advertising response elasticities were relatively large for the price and age variables, the decomposition effects since 1997 were reduced by relatively small changes in these variables since 1997 (+4% for price, -4% for the proportion of the population age 20-44). Again, the combined negative contributions slightly outweigh the positive contributions, consistent with the overall decrease in generic cheese advertising elasticities from 1997 to 2001.

## ***IMPACT OF THE DAIRY AND FLUID MILK ADVERTISING PROGRAMS***

To evaluate recent market impacts of the Dairy and Fluid Advertising Programs, the economic model was simulated over the time period from 1999 through 2001. These two programs are complementary in that they both share a common objective to increase fluid milk sales. To accomplish this objective, both programs invest in generic fluid milk advertising, which is different from brand advertising in that the goal is to increase the total market for fluid milk rather than a specific brand's market share. In the evaluation of the programs, it is assumed that a dollar spent on fluid milk advertising by dairy farmers has the same effect on demand as a dollar spent by processors on fluid milk advertising, since both programs have an identical objective. The Dairy Program additionally has an objective to expand the market for cheese. Accordingly, part of its budget is directed to generic cheese advertising.

To examine the impacts that the two advertising programs had on the markets for fluid milk and cheese over this period, the economic model was initially simulated under two scenarios based on the level of generic advertising expenditures: (1) a baseline scenario, where generic advertising levels were equal to actual generic advertising expenditures under the two programs, and (2) a no-national program scenario, where there was no fluid milk processor sponsored advertising and dairy farmer sponsored advertising was reduced to 42 percent of actual levels to reflect the difference in assessment before and after the national program was enacted. A comparison of these two scenarios provides a measure of the combined impacts of the two programs.

**Table 3-3** presents the annual averages for supply, demand, and price variables over the period 1999-2001 for the two scenarios. Generic advertising by the Dairy and Fluid Programs has had a positive impact on fluid milk consumption over this period. Specifically, fluid milk consumption would have been 4.5 percent lower had the two advertising programs not been in effect. Likewise, generic cheese advertising under the Dairy Program had a positive impact on cheese consumption, (i.e., consumption would have been 1.0 percent lower without generic advertising.) Consumption of milk used in all dairy products would have been 1.9 percent lower had these two programs not been in effect during 1999-2001.

Generic advertising by dairy farmers and milk processors also had an effect on the farm milk price and milk marketings. The simulation results indicate that the all-milk price would have been \$0.96 per hundredweight lower without the generic advertising provided under the two programs. The farm milk price impacts resulted in a slight increase in farm milk marketings. That is, had there not been the two advertising programs, farm milk marketings would have been 1.9 percent lower over the 1999-2001 period due to the lower milk price.

A third scenario was subsequently simulated to measure the market impacts of the advertising program supported by the 15-cent checkoff program by dairy farmers; however, this scenario assumes that the advertising program operated by the milk processors is still in effect. As in the earlier scenario, advertising

expenditures by dairy farmers were reduced to 42 percent of actual levels to reflect the situation prior to the enactment of the Dairy Program. A comparison of the third scenario with the baseline scenario gives a measure of the advertising market impacts of the current mandatory Dairy Program.

The last two columns of **Table 3-3** present the results of this scenario, which are similar to the combined fluid milk processor and dairy farmer advertising program results. Had there not been fluid milk and cheese advertising sponsored by dairy farmers, fluid milk demand would have been 1.1 percent lower, cheese demand would have been 1.1 percent lower, and total milk demand would have been 0.8 percent lower than it actually was. Advertising under the Dairy Program also had a significant impact on the farmer milk price. The simulation results indicate that the all-milk price would have been \$0.23 per hundredweight lower without generic advertising by the Dairy Program. Finally, farm milk marketings would have been slightly lower (0.8 percent) in the absence of the Dairy Program.

### ***BENEFIT-COST OF ADVERTISING BY THE DAIRY PROGRAM***

One way to measure whether the benefits of a program outweigh the costs is to compute a benefit-cost ratio (BCR). A BCR can be computed as the change in net revenue due to advertising divided by the cost of advertising. While a BCR for producers can be estimated for the Dairy Program, it cannot be computed at this time for milk processors with the Fluid Program because data on packaged fluid milk wholesale prices, which is necessary in calculating processor net revenue, are proprietary information and not available.

The BCR for the Dairy Program was calculated as the change in dairy farmer net revenue (which economists call “producer surplus”) due to demand enhancement from advertising under the Dairy Program divided by the advertising costs. The demand enhancement reflects increases in quantity and price as a result of the advertising program. As such, costs allocated to the enhancement represent advertising costs. Since advertising expenditures in the model only represent air-time, print space, and other direct media costs, it is necessary to incorporate expenses that reflect general administration, overhead, and advertising production costs in order to reflect the true complete costs of the advertising program supported by the checkoff. Following conversations with staff at Dairy Management Inc. (DMI) and a review of Dairy Program budgets, direct media expenditures were prorated upwards by a factor of 1.25. The results show that the average BCR for the Dairy Program was 6.26 from 1999 through 2001. This means that each dollar invested in generic fluid milk and cheese advertising by dairy farmers during the period returned \$6.26, on average, in net revenue to farmers.

Another way to interpret this figure is as follows: The increase in generic advertising expenditures resulting from the enactment of the Dairy Program cost dairy producers an additional \$67 million per year on average since 1999, i.e. the difference between \$213 million annually under the baseline scenario and \$146 million under the no-Dairy-Program scenario. The additional fluid milk and cheese advertising resulted in higher milk demand, milk prices, and profits for dairy producers nationwide. Based on the simulations conducted

with the economic model, it is estimated that the average annual increase in producer surplus (reflecting changes in both revenues and costs) since 1999 due to the additional advertising under the Dairy Program was \$420 million, which represents 1.8 percent of total farm cash receipts from milk marketings. Dividing \$420 million by the additional advertising costs of \$67 million results in the benefit cost ratio estimate of 6.26.

It should be noted that the BCR estimate here is above those estimated in previous reports that used constant parameter models. This is, in part, reflective of the higher fluid milk and cheese generic advertising elasticities estimated over the more recent time period relative to the mean-response elasticities estimated with constant parameter models over the entire sample period. In addition, previous reports evaluated a five-year time horizon and compared changes in gains in producer net revenue to the value of the entire dairy checkoff. Using a similar procedure, a constant parameter version of the above model was also estimated with results comparable to previous estimates. The goal of this report was to enhance the economic model by allowing advertising elasticities to change over time and with simulation results reflective of current market indicators to evaluate returns to the generic advertising program. The results of this approach indicate that generic advertising for fluid milk and cheese continues to be a viable and worthwhile program for milk producers.

**Table 3-1.** Average elasticity values (1997-2001) for factors affecting the retail demand for fluid milk and cheese.<sup>a</sup>

<u>Factors affecting demand</u>	<u>Fluid Milk</u>	<u>Cheese</u>
Retail price	-0.136	-0.459
Per capita income	0.645	0.753
Per capita food away from home expenditures	n.a.	0.197
Percent of population under 6 years of age	0.916	n.a.
Percent of population 20 to 44 years of age	n.a.	0.590
Percent of population African American	-0.239	n.a.
Percent of population Asian/Other	n.a.	0.557
Generic Advertising	0.041	0.039

<sup>a</sup> Example: A one-percent increase in the retail price of fluid milk is estimated to reduce per capita sales of fluid milk by 0.136 percent. n.a. means "not applicable."

**Table 3-2. Average Generic Advertising Response Elasticities, 1997-2001<sup>a</sup>**

Variable	Fluid Milk		Cheese	
	Elasticity	Std. Dev.	Elasticity	Std. Dev.
Retail price	-1.156	0.054	-6.115	0.216
Per capita income	4.416	0.114	7.331	0.189
Per capita food away from home expenditures	n.a.	n.a.	-4.718	0.203
Percent of population under 6 years of age	6.536	0.103	n.a.	n.a.
Percent of population 20 to 44 years of age	n.a.	n.a.	6.628	0.102
Percent of population African American	-1.628	0.013	n.a.	n.a.
Percent of population Asian/Other	n.a.	n.a.	2.757	0.093

<sup>a</sup> Interpreted as the percentage change in the long-run generic advertising elasticity for a one-percentage unit change in the associated variable.



**Table 3- 3. Simulated impacts of the Dairy and Fluid Milk Programs on selected market variables, annual average 1999-2001.**

		<u>Baseline Scenario<sup>a</sup></u>	<u>No National Program Scenario<sup>b</sup></u>		<u>No Dairy Program Scenario<sup>c</sup></u>	
Market Variable	Unit	Level	Level	% Difference	Level	% Difference
Fluid Milk Demand	bil lbs	55.5	53.0	-4.5	54.9	-1.1
Cheese Demand	bil lbs MFE	68.5	67.9	-1.0	67.8	-1.1
Total Dairy Demand	bil lbs	162.3	159.2	-1.9	161.0	-0.8
Basic Formula Price	\$/cwt	11.76	10.92	-7.1	11.54	-1.8
All Milk Price	\$/cwt	13.87	12.91	-6.9	13.64	-1.7
Milk Marketings	bil lbs	164.1	161.0	-1.9	162.8	-0.8
Benefit-Cost Ratio <sup>d</sup>	\$ per \$1				6.26	

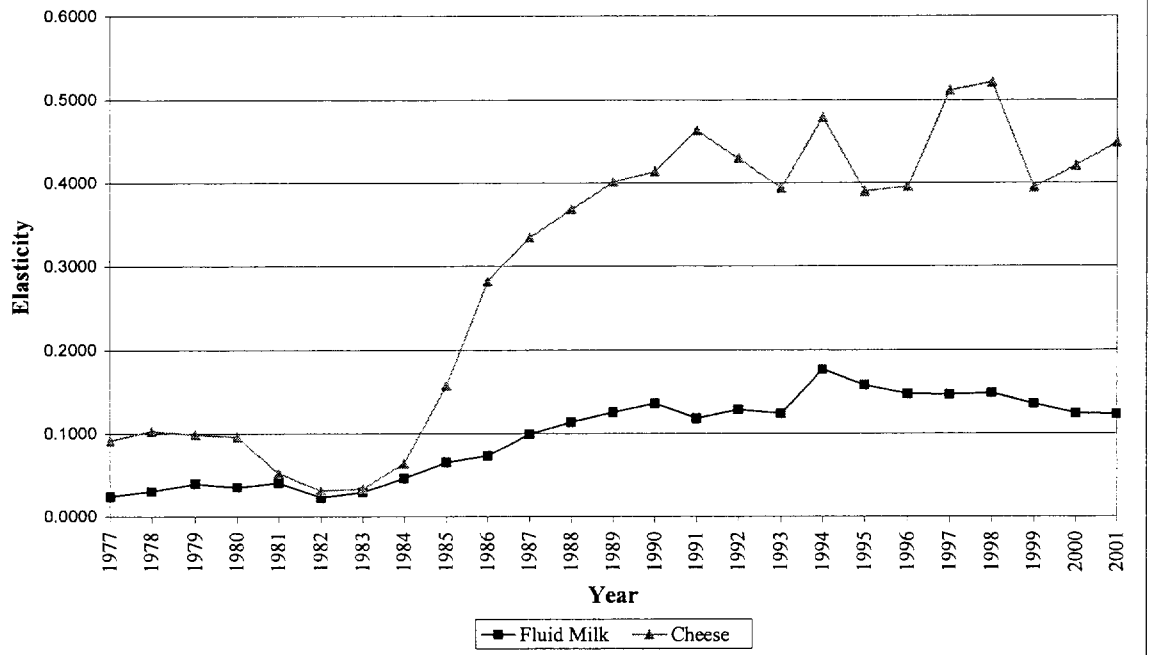
<sup>a</sup> Baseline scenario reflects the current operation of the Dairy and Fluid Milk Programs.

<sup>b</sup> No National Program Scenario reflects no Fluid Milk Program and Dairy Program advertising at pre-national program spending levels.

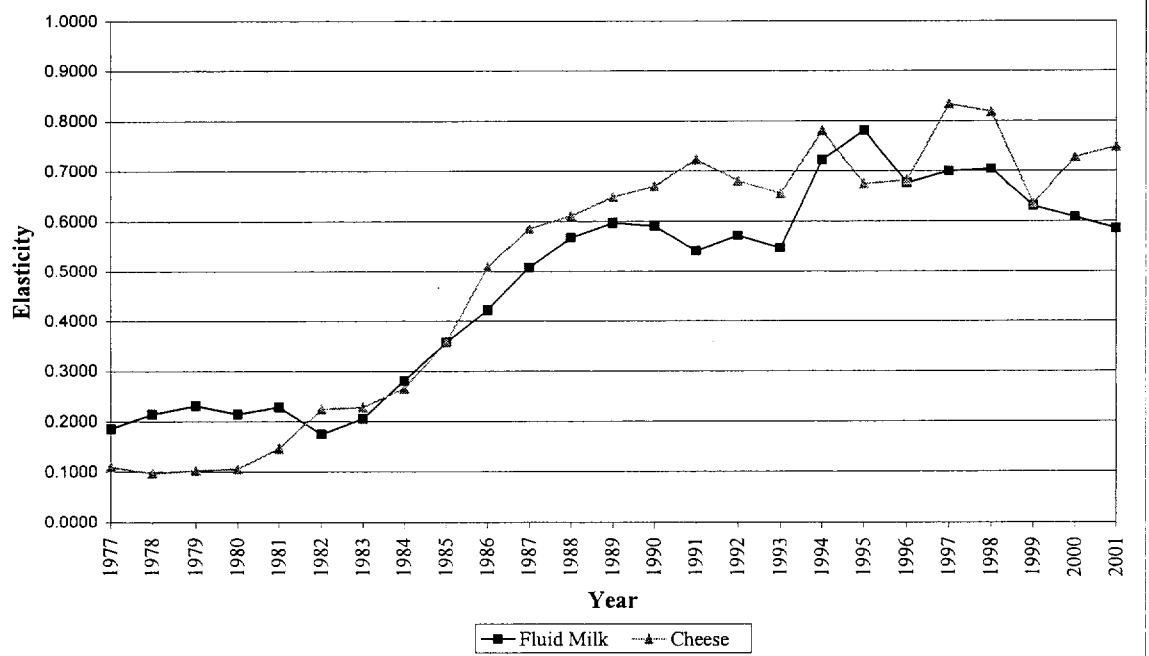
<sup>c</sup> No Dairy Program reflects current Fluid Milk Program and Dairy program advertising at pre-national program spending levels.

<sup>d</sup> Benefit-Cost ratio computed for Dairy Program only.

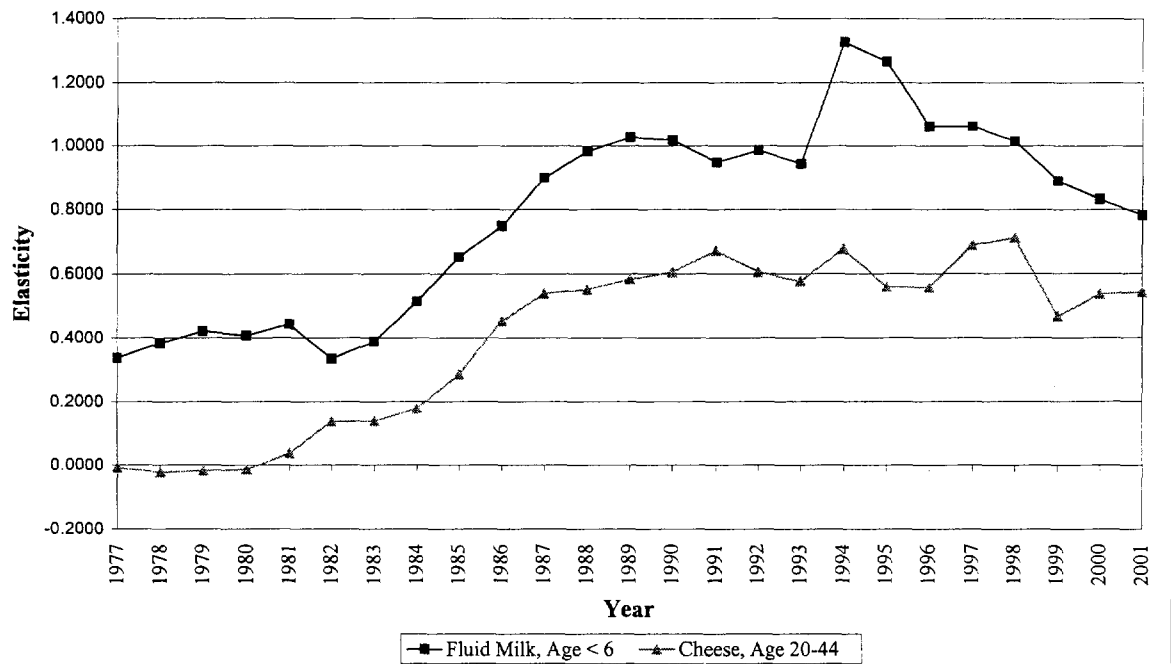
**Figure 1. Annual Price Elasticities for Fluid Milk and Cheese**



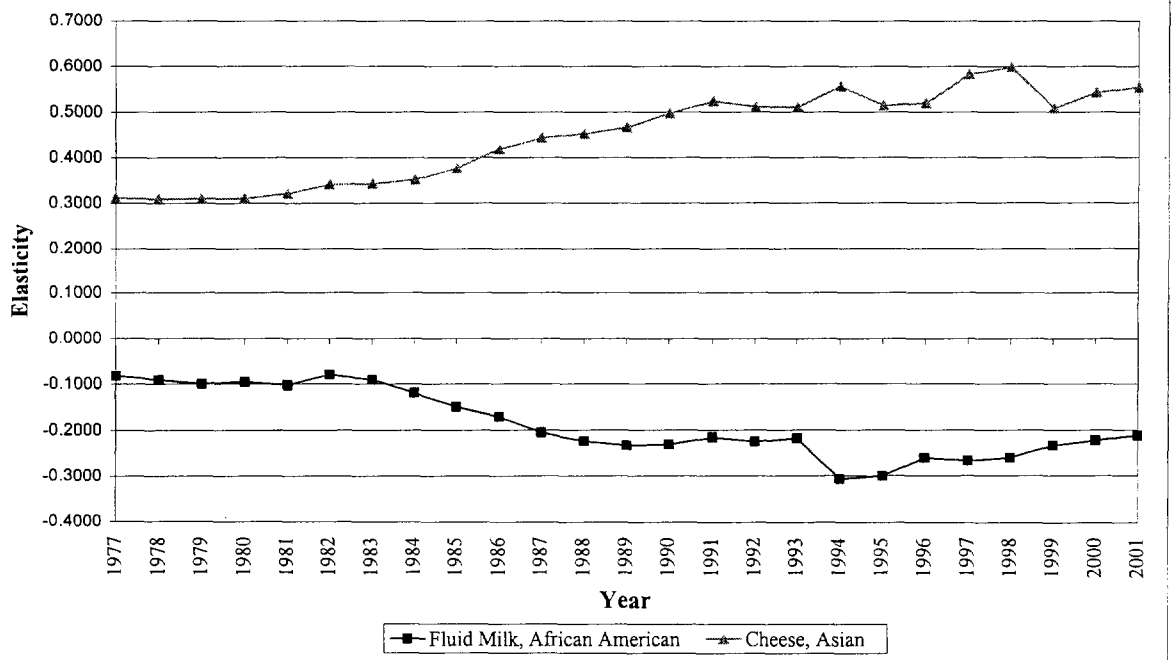
**Figure 2. Annual Income Elasticities for Fluid Milk and Cheese**



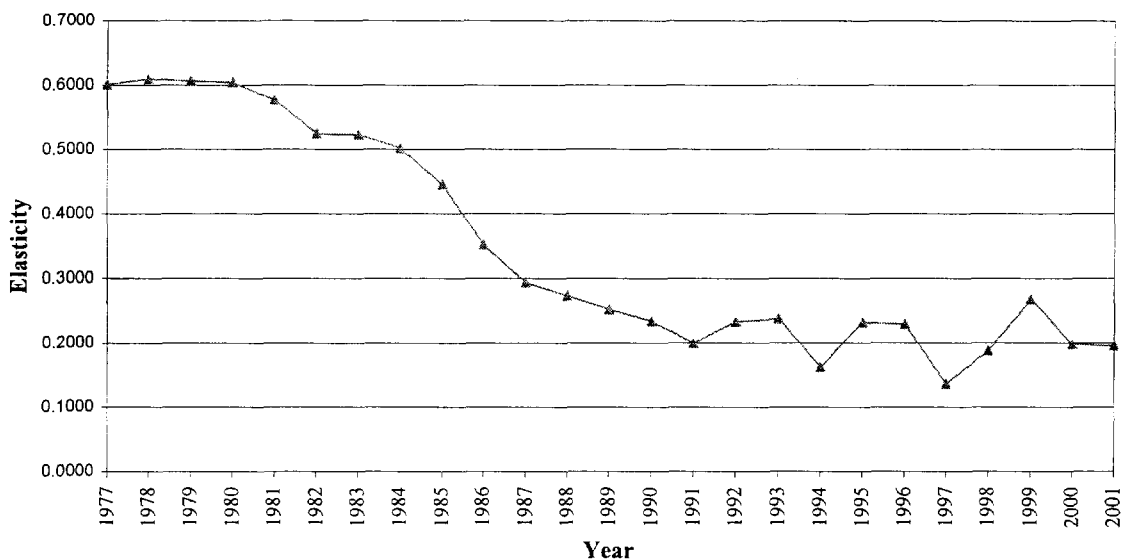
**Figure 3. Annual Age Composition Elasticities for Fluid Milk and Cheese**



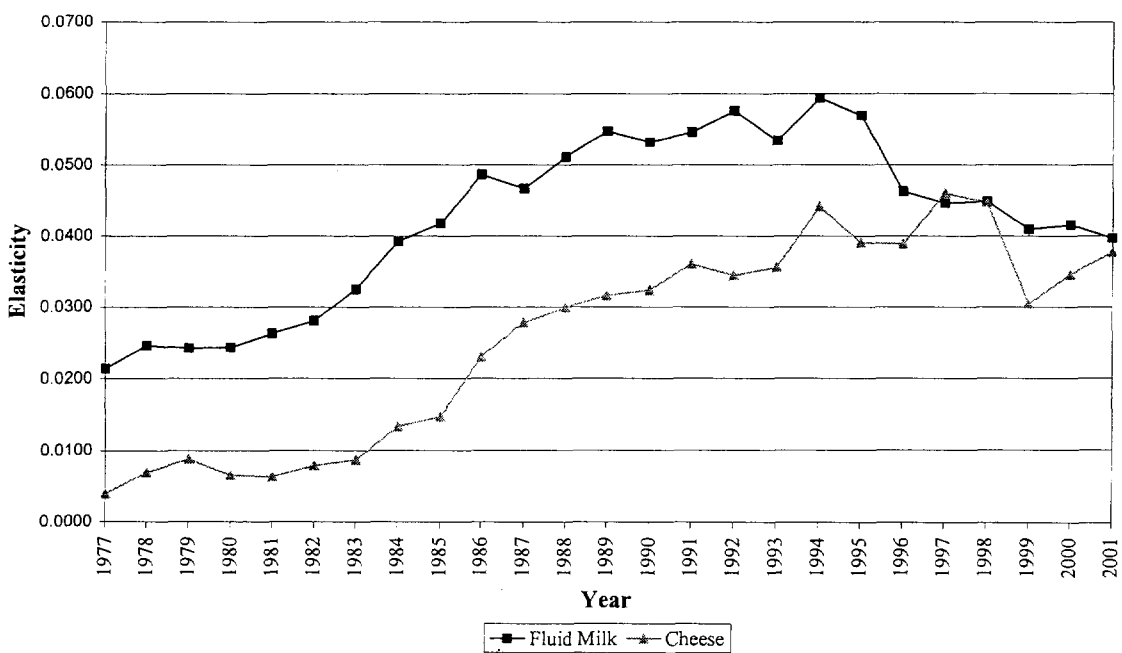
**Figure 4. Annual Race Elasticities for Fluid Milk and Cheese**



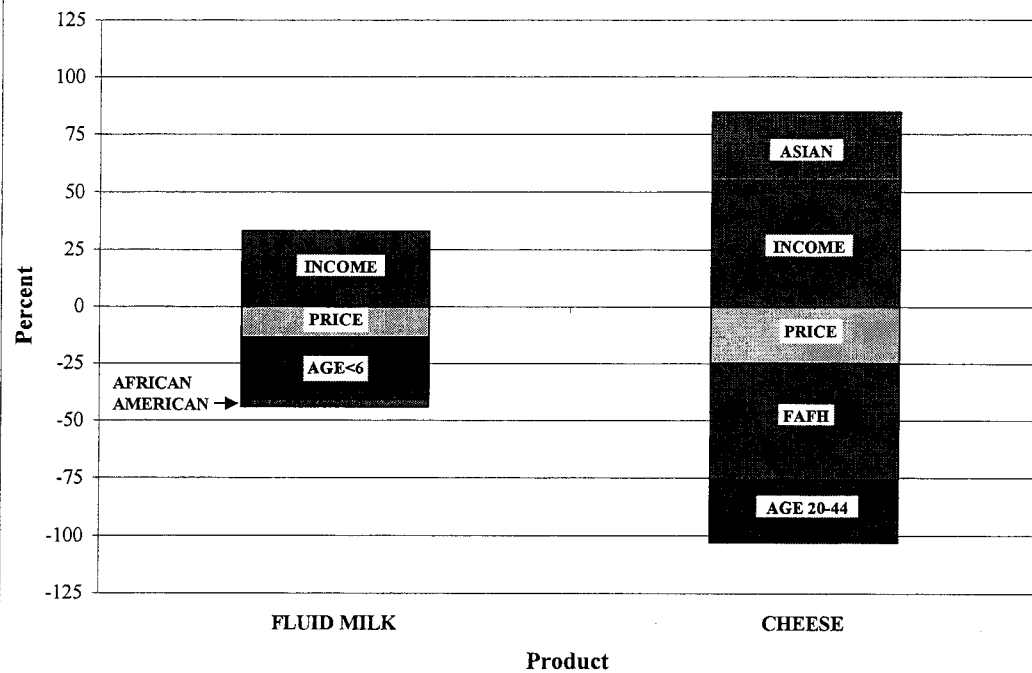
**Figure 5. Annual Per Capita Food Away From Home Expenditure Elasticities for Cheese**



**Figure 6. Annual Generic Advertising Elasticities for Fluid Milk and Cheese**



**Figure 7. Generic Advertising Response Decomposition for Fluid Milk and Cheese, Percent of Total Advertising Parameter Variation 1997-2001.**



*Appendix. Description of Variables Used in Econometric Model.<sup>a</sup>*

Variable	Description	Units	Mean <sup>b</sup>
<b>Consumption Variables</b>			
RFDPC	Quarterly retail fluid demand per capita	lbs. MFE	49.46 (1.40)
RCDPC	Quarterly retail cheese demand per capita	lbs. MFE	60.16 (3.11)
RBDPC	Quarterly retail butter demand per capita	lbs. MFE	23.84 (2.85)
RCDPC	Quarterly retail frozen demand per capita	lbs. MFE	12.72 (1.96)
FMS	Quarterly fluid milk production	bil. lbs.	40.45 (1.47)
<b>Prices and Price Indices</b>			
RFPBEV	Consumer retail price index for fresh milk and cream, deflated by retail consumer price index for nonalcoholic beverages (1982-84=100)	#	1.14 (0.05)
RCPMEAT	Consumer retail price index for cheese, deflated by consumer retail price index for meats (1982-84=100)	#	1.03 (0.04)
WFP	Wholesale fluid price index (1982-84=100)	#	1.46 (0.09)
WCP	Wholesale cheese price	\$/lb.	1.39 (0.22)
MW	Basic formula price	\$/cwt.	12.31 (2.13)
AMP	All milk price	\$/cwt.	14.08 (1.57)
DIFF	Class I differential	\$/cwt.	3.27 (1.94)
PFE	Producer energy index (1982-84=100)	#	1.02 (0.14)
<b>Demographic Variables</b>			
INCP	Per capita disposable income, deflated by the consumer retail price index for all items (1982-84=100)	\$000	14.22 (0.37)
BLACK	Proportion of the population African American	#	11.95 (0.10)
ASIAN	Proportion of the population Asian	#	4.71 (0.16)
AGE5	Proportion of the population under age 6	#	6.94 (0.11)
AGE2044	Proportion of the population age 20 to 44	#	36.91 (0.57)
<b>Advertising Expenditures</b>			
GFAD	Quarterly generic fluid milk advertising expenditures, deflated by Media Cost Index (2001=100)	\$mil	40.74 (9.69)
GFAD_DMI	Quarterly generic fluid milk advertising expenditures, Dairy Program, deflated by Media Cost Index (2001=100)	\$mil	23.31 (10.09)
GFAD_MILKPEP	Quarterly generic fluid milk advertising expenditures, Fluid Milk Program, deflated by Media Cost Index (2001=100)	\$mil	17.43 (5.37)
GCAD	Quarterly generic cheese advertising expenditures, Dairy Program, deflated by Media Cost Index (2001=100)	\$mil	13.47 (2.36)
BFAD	Quarterly brand fluid milk advertising expenditures, deflated by Media Cost Index (2001=100)	\$mil	5.77 (2.93)
BCAD	Quarterly brand cheese advertising expenditures, deflated by Media Cost Index (2001=100)	\$mil	26.43 (10.16)

<sup>a</sup> Quarterly dummy variables (Q1-Q3) are also included in the model to account for seasonality in demand.  
<sup>b</sup> Mean and standard deviation computed over most recent five-year period, 1997-2001. Standard deviation in parentheses.

## CHAPTER 4

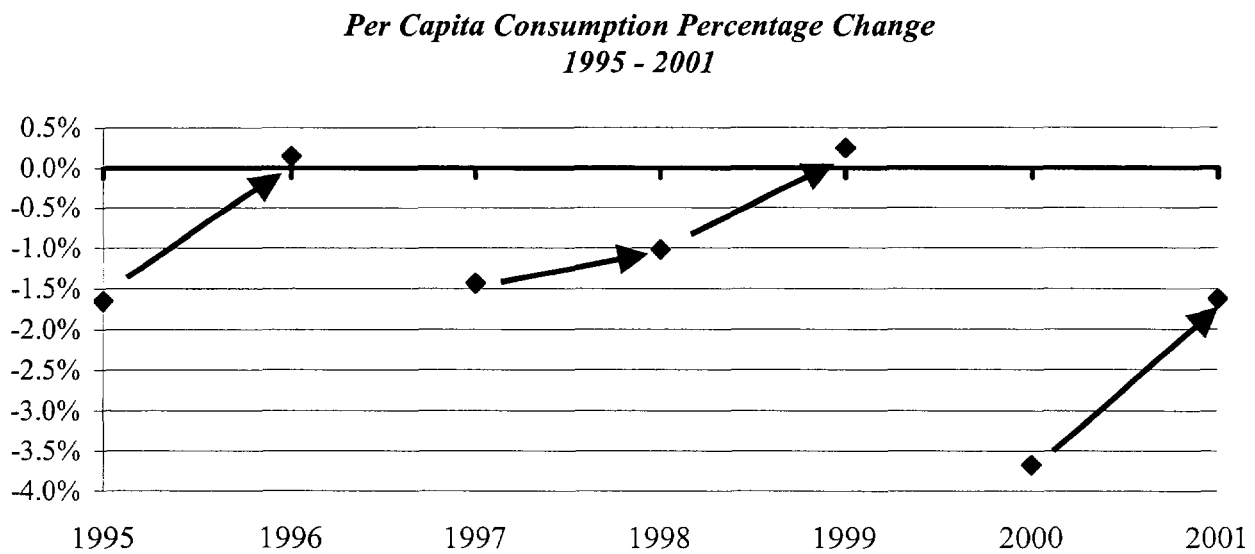
### FLUID MILK MARKET AND PROMOTION ASSESSMENT

For the third consecutive year, Beverage Marketing Corporation (BMC) has been commissioned by dairy Management Inc. and the Fluid Milk Processor Promotion Board to review the generic fluid milk advertising and promotional programs. This review offers a subjective evaluation of the effectiveness of those programs. BMC evaluates milk's position relative to milk's competitive beverage set — its respective marketing efforts and market performance. BMC believes milk's competitive set includes most non-alcoholic refreshment beverages, specifically carbonated soft drinks, bottled water, fruit beverages, ready-to-drink teas, and sports beverages. This year BMC examines both the overall milk industry's performance as well as the effect that targeted advertising and promotion have had on milk consumption by the crucial demographic cohorts. The following summarizes our findings based on the analysis of available data.

#### *BMC'S ASSESSMENT OF CURRENT MILK INDUSTRY ENVIRONMENT*

Total fluid milk consumption/volume has moved up and down within a narrow range of small declines and gains over the past 30 years. Over the past decade, total volume has been essentially flat, while per capita consumption has slid downward. However, since 1995, the rate of decline in fluid milk consumption has actually decreased in four out of the last six years in year-over-year comparisons. See **Figure 4-1**. BMC believes that fluid milk volume declines would have been greater without the impact of the national generic fluid milk advertising and promotional program. Additionally, targeted marketing to key demographics such as kids, teens and Hispanics by the national generic program has been effective in increasing consumption among these key targets.

Figure 4-1

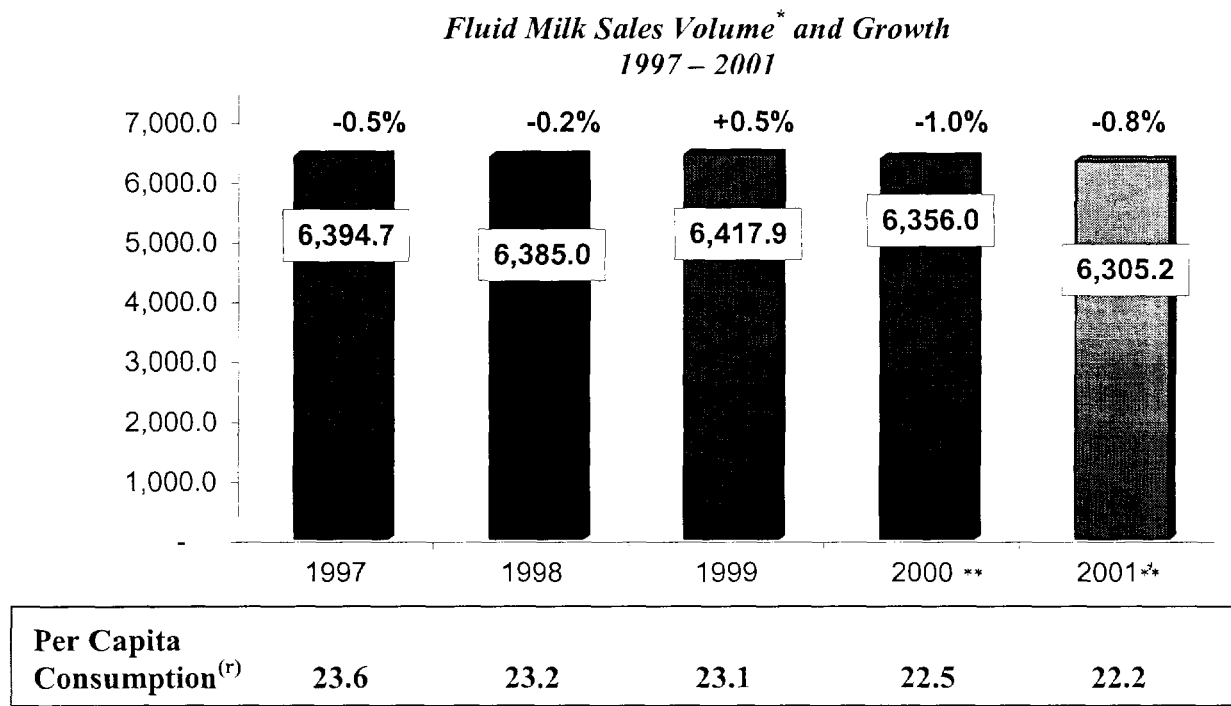


Source: Beverage Marketing Corp., USDA

The history of volume changes for fluid milk sales over the past five years is shown in **Figure 4-2**. Milk's compound annual growth rate (CAGR) was -0.3% from 1997 to 2001. Milk volume in 2001 shrank 0.8% to 6,305.2 million gallons. Along with the decline in volume, per capita milk consumption dropped 1.8% to 22.2 gallons per capita in 2001.

Note: In past years, BMC relied largely on retail scanner data as the basis for milk volume/growth analysis. BMC's milk data (based largely on scanner data) agrees directionally with the USDA data and shows milk volume down in 2001. For 2001, USDA data are being used. To make an accurate point of comparison, 2000 has been restated to be consistent with the USDA while data from 1997-1999 were already consistent with USDA figures.

Figure 4-2



\* In millions of gallons; \*\* Based on USDA milk data

r = Revised

Source: Beverage Marketing Corp.; USDA



The data of **Figure 4-3** compares the per capita consumption performance of milk with its competitive set. Milk ranks second in per capita consumption within its competitive set. All competitive beverages outperformed milk in 2001 and with the exception of carbonated soft drinks all had positive per capita growth.

**Figure 4-3**

<b>Per Capita Consumption Gallons &amp; Change 2000-2001</b>			
	2000	2001	Change
CSD	55.6	55.3	-0.5%
Milk (r)	22.5	22.2	-1.8%
Bottled Water	18.3	20.1	9.8%
Fruit Beverages	15.3	15.5	1.3%
Sports Drinks	2.7	2.8	3.7%
RTD Tea	1.8	1.9	5.6%

Source: Beverage Marketing Corp.; USDA  
r= Revised

As shown in **Figure 4-4**, the total competitive beverage set, including milk, grew at a CAGR of 1.8% from 1997 to 2001. Without milk, competitive set volume would have risen at a CAGR of 2.3% in the same period. It is interesting to note that the competitive set would have grown at a CAGR of just 0.84% from 1997 to 2001 if bottled water were excluded.

**Figure 4-4**

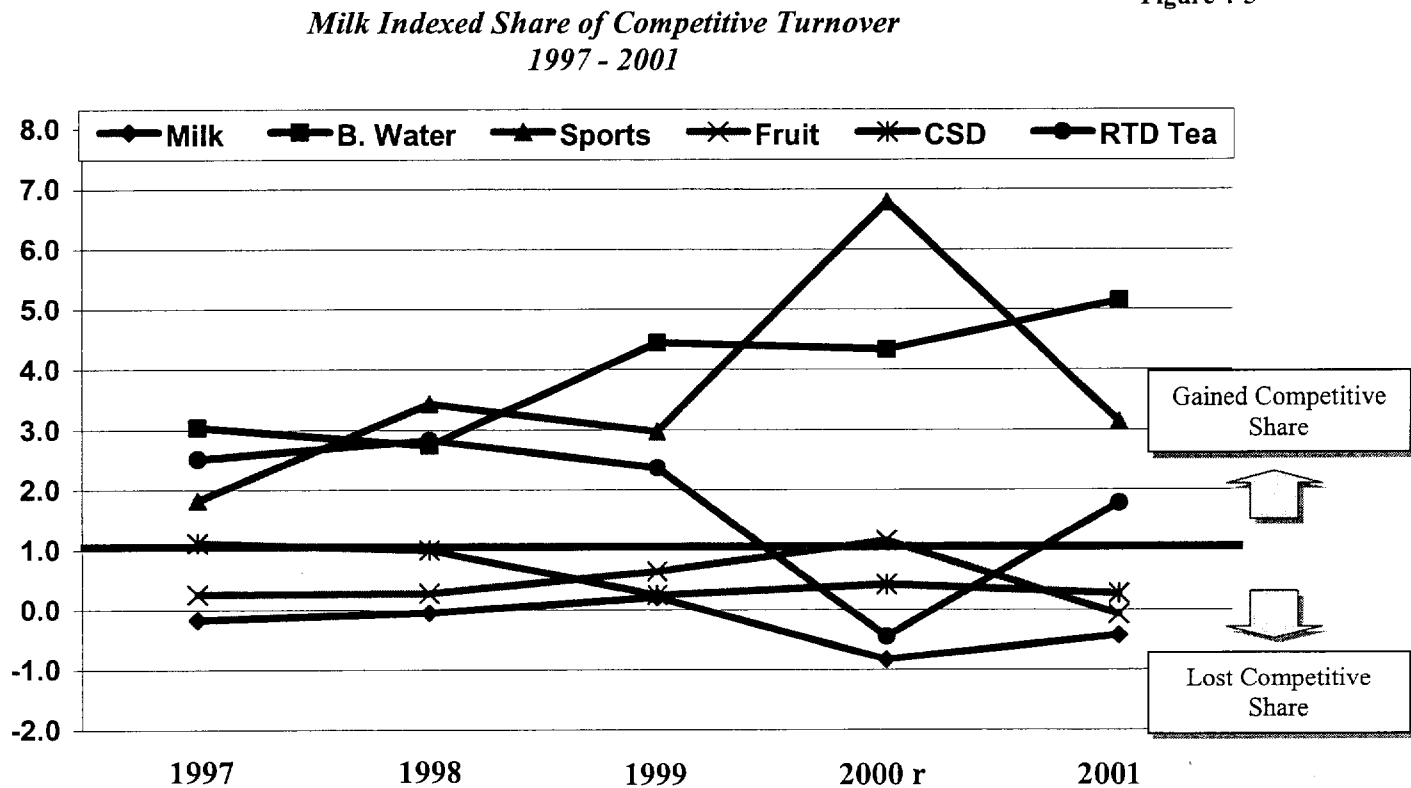
<b>Volume Growth of Milk and Its Competitive Set 1997-2001</b>				
	Milk	Total Competitive Set	Comp. Set w/o Milk	Comp. Set w/o Water
1997	-0.5%	2.9%	3.9%	2.0%
1998	-0.2%	3.4%	4.3%	2.4%
1999	0.5%	2.5%	3.0%	1.0%
2000	-1.0%	1.2%	1.7%	0.5%
2001*	-0.8%	1.9%	2.6%	0.3%
<b>97-01 CAGR</b>	<b>-0.3%</b>	<b>1.8%</b>	<b>2.3%</b>	<b>0.8%</b>

Source: Beverage Marketing Corp.; USDA

BMC analyzed milk's annual share of the volume increase of the entire competitive set over the past 15 years. This measure of milk's performance is an index based on its share of competitive volume change, divided by milk's market share of the competitive set at the beginning of the year. When this index is greater than 1, milk is improving its share. When less than 1, milk's share of the competitive set is declining. Milk's share of competitive turnover from 1997 to 2001 is shown in **Figure 4-5**, along with data for the competitive set. From 1997 to 1999, milk had shown improvement in competitive turnover rates, though still losing share to competitors.

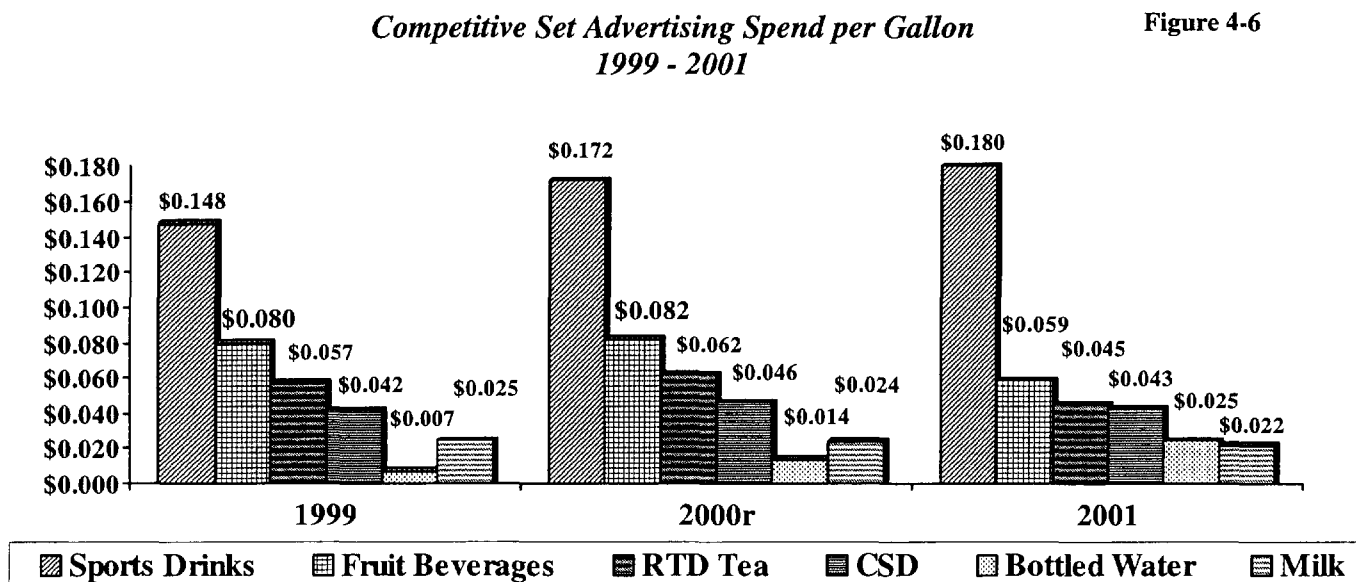
Milk's share of competitive turnover declined the last two years, though its index recovered slightly from restated 2000 (-0.8) to -0.4 in 2001. Bottled water was once again the strongest performer of the competitive set, with a share of competitive turnover index of 5.1 in 2001. Sports beverages followed at a distant 3.1.

Figure 4-5



Source: Beverage Marketing Corp.; USDA  
r: Revised

Milk's competitive environment remains one of the most challenging in beverage history. Recent years have seen the increasing breadth and strength of major beverage brands, especially in the bottled water business, which raised the level of competition for consumers' minds and dollars. Importantly, marketing and advertising efforts of the competitive set have continued to climb significantly in all categories. See **Figure 4-6**.



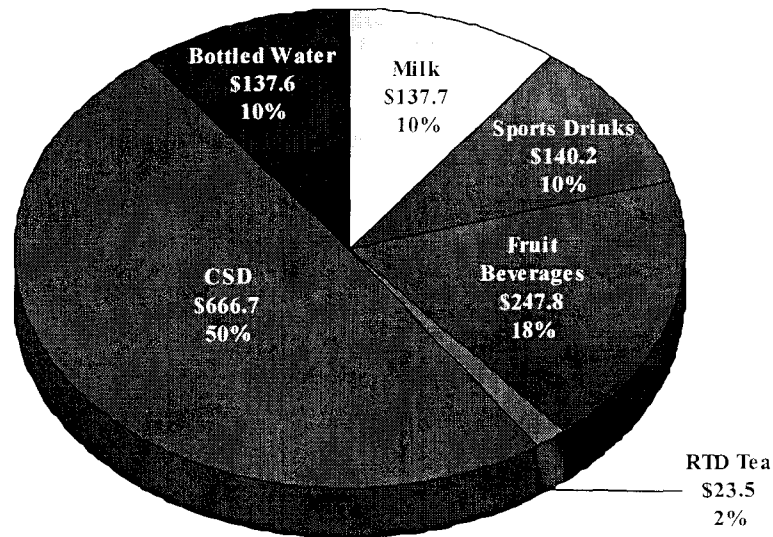
Source: Beverage Marketing Corp.; USDA; CMR Multimedia Service

In 2001, at \$0.022 per gallon, milk spent the least on advertising per gallon of any of its competitors, nearly three tenths of a cent less than its nearest competitor, bottled water, at \$0.025 per gallon. In 2001, \$137.7 million was spent on milk advertising. While most of that spending came from the national generic fluid milk program, some of it came from individual processors. Again in 2001, carbonated soft drinks accounted for essentially half of all advertising spending of the competitive set. See **Figure 4-7**.

Quantitative analysis of competitive beverages' promotional expenditure is impossible because the data are kept confidential. However, BMC believes that milk is overspent by the competitive set to an even greater degree on promotion and other marketing programs than it is on advertising. This competitive mismatch is undoubtedly a key contributor to milk's flat sales performance.

Figure 4-7

*Competitive Set Advertising Spending  
2001  
(Millions of Dollars)*



Source: Beverage Marketing Corp.; CMR Multimedia Service

Milk remains at a competitive disadvantage in several important respects:

*Consumer attention*

- An increasing array of non-milk beverage products are competing for the attention of the consumer. Many have co-opted milk's product attributes, such as a source of calcium.
- Reduced share of voice due to decreases in milk advertising spending and increases in competitive spending.

*Product attributes and innovation*

- While milk has begun to innovate, it still lags behind almost every other category in the competitive set in this respect. Milk still offers limited new products and flavors in comparison to the competition.
- Milk consumption in single-serve plastic packages was up more than 4% in 2001 based on limited IRI data, and likely grew more than that if convenience store data were included. Plastic single-serve is likely to become milk's most important innovation in terms of brand, product, image improvement and channel availability as food service, vending, and other channels develop.

### ***Branding***

- Milk's competitive set is dominated by world-class marketing organizations with powerful brands. Milk has only a handful of large brands and is still largely viewed as a commodity.
- The majority of milk volume is private label, while just a fraction of the competitive set is accounted for by private label. This lack of strong milk brands continues to hamper milk's ability to compete, as we believe branded product advertising is more effective than generic advertising in the beverage industry.
- Consolidation in the dairy industry should lead to brand development and innovation, but has yet to yield significant brand marketing gains.

### ***Distribution***

- Despite milk's inroads into fast-growing, non-traditional channels, including vending, quick-serve (e.g., Dunkin' Donuts), and mass merchandisers (e.g., Wal-Mart), milk remains a primarily supermarket-purchased, take-home product.
- Milk vending is likely to become an important channel for processors, and has the potential to improve the availability, merchandising, and consumption of milk in numerous locations, but vending is currently underdeveloped relative to the competition.
- Product perishability limits promotion and display efforts and eliminates retailer and consumer stock-up. BMC believes that higher in-home inventories of beverage products can lead to increased consumption levels. However, new pasteurization and packaging techniques are beginning to create distribution, display and stock-up options. Consumer perception of these products and their "freshness" needs to be modified in order to make them truly viable.

### ***Marketing alignment***

- Coordination and alignment between the national program developers, processors and retailers have improved, but integration/alignment must be much tighter before milk can even approach its competition in terms of marketing strength. In well-aligned programs, local activities reference and reinforce the main themes of the national generic advertising.

### ***Pricing***

- The milk industry is limited (structurally and legally) in its use of price promotion. Specifically, product perishability as well as state regulations limit the industry's ability to use price promotions.
- Milk's competitive set uses price promotion aggressively to promote consumption and stock-up.

## ***BMC'S ASSESSMENT OF CURRENT MILK MARKETING PROGRAMS***

Beverage Marketing believes the marketing campaign under the Dairy Act and the Fluid Milk Act has successfully slowed milk's long historical slide in per capita consumption dating back to 1970, but the downturn in 2000 and 2001 may be evidence of a lagged affect of the decline in milk's advertising spending and share of voice. See **Figure 4-8**. The recent decline in milk's advertising expenditure since 1997 may be a contributing factor to the decline in volume sales.

Advertising expenditure is one very large piece of the total generic milk campaign, and decreases in advertising expenditures have largely been made to increase promotional efforts and various strategic and operational initiatives, such as supporting and encouraging processors to innovate and market their brands, and the further development of school-related programs. These operational initiatives may now be beginning to impact the consumption of milk, but may have enduring affects on milk availability and consumption.

**Figure 4-8**

<b>Combined Producer/Processor Milk Advertising Spend and Change (Millions of Dollars) 1997-2001</b>		
	<b>Total</b>	<b>Change</b>
1997	\$187.7	27.9%
1998	\$175.2	-6.7%
1999	\$158.6	-9.5%
2000	\$153.1	-3.5%
2001	\$137.7	-10.1%

*Source: Beverage Marketing Corp.; Bozell*

The "got milk?" campaign has been successful by almost any measure. It has won awards and realized unprecedented awareness levels among all consumer groups. It has given milk an enduring contemporary image with current, trendy celebrity endorsements. It has also allowed for highly targeted advertising in a wide variety of media to a diverse consumer base. The flexibility of the "got milk?" campaign is one of its greatest strengths. This strength will be crucial if the same campaign is to evolve as milk moves strongly into single-serve packaging and new channels.

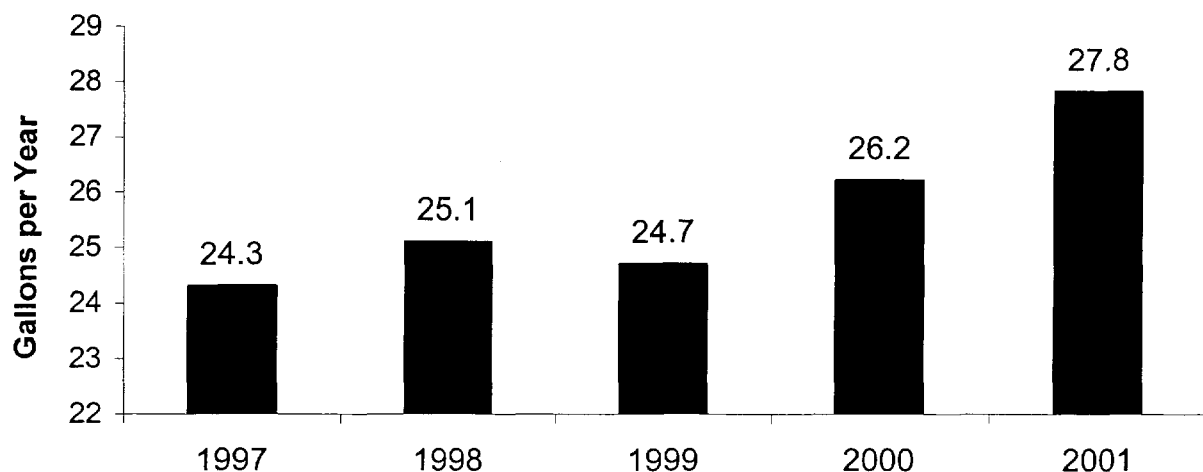
Beverage Marketing believes milk's volume declines would be greater without the national generic program. The milk marketing campaign has effectively defended milk against strong competition and has done so with less advertising spending per gallon than any other segment in the competitive beverage set. However, it is no surprise that milk per capita consumption is shrinking when we consider how it has been competing for consumers. Milk has experienced four consecutive years of decreases in advertising spending while no competitor has had two consecutive years of substantial decreases. Milk's competition is leveraging substantial, steady advertising expenditure for higher share of voice. Bottled water once again had a huge advertising spend increase and spent almost the same amount as milk, in absolute terms, but surpassed milk in spending per gallon.

In line with past Beverage Marketing recommendations, the milk campaign has recently been more focused on key segments likely to drive future industry growth (e.g., flavored milk, Hispanics, kids, and teens), and has reduced efforts against non-core users, including male adults. While total industry performance and two years of significant decline might indicate decreasing effectiveness of the generic industry program, closer examination of consumption trends among some targeted segments suggests that recent, targeted efforts have been quite successful. These improvements are not likely to drive total industry gains over the short-term, but rather will have a significant longer-term impact. This impact will likely accelerate as the industry continues to enhance its growth-segment packaging, products, and availability in a manner that is commensurate with the positioning and imagery of the national program.

The targeted strategy appears to be a powerful tool for increasing milk consumption. The crucial 6-12 year old demographic has shown increases in per capita consumption for two years. In 2001, per capita consumption for children ages 6-12 was 28 gallons of milk, regaining its highest point since 1991, and continuing an upward trend since 1999. See **Figure 4-9**.

**Figure 4-9**

***Per Capita Milk Consumption by Children 6-12  
1997-2001***

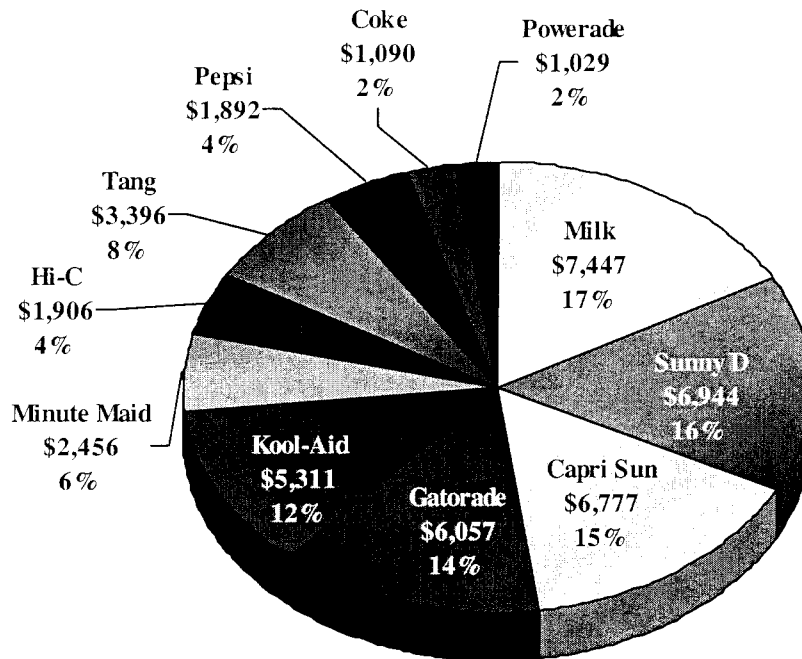


Source: Beverage Marketing Corp.; SIP

In terms of ad dollars spent against the target, milk is the top beverage advertiser in child-focused television, spending nearly \$7.5 million in 2001. See **Figure 4-10**. The next closest competitive brand, Sunny Delight, spent just under \$7 million. It is important to recognize, however, that this comparison is between a generic industry program and a single brand program. There was no significant kid milk brand advertising expenditures in 2001. Nevertheless, the generic advertising/promotional efforts have helped enable milk to maintain its status as the dominant beverage (37% share of stomach) for 6-12 year olds.

**Figure 4-10**

**2001 Top Children TV Beverage Advertising Spenders**  
**Share of Voice**  
*(000's of Dollars)*

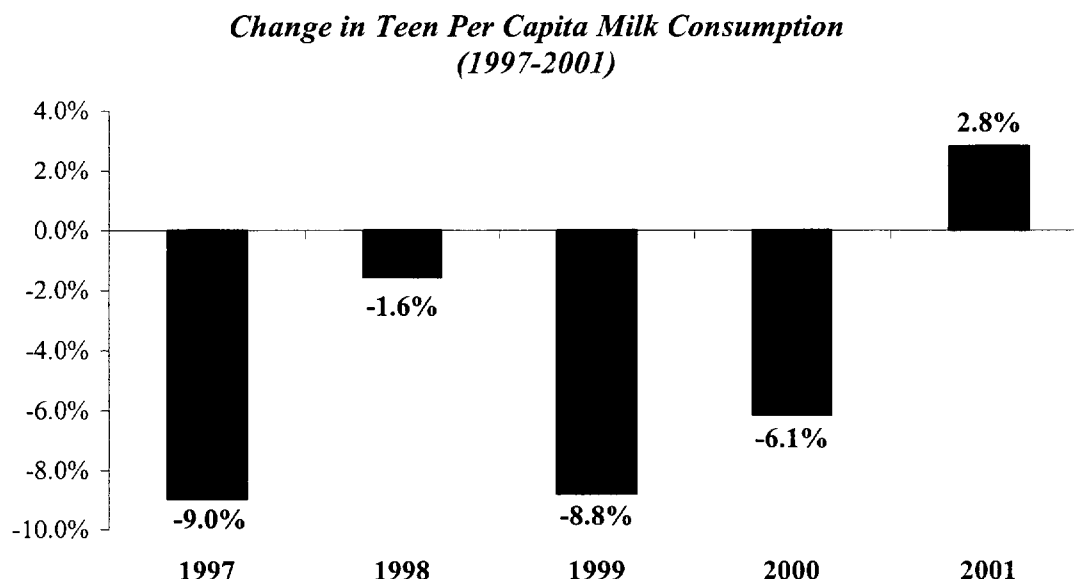


Source: Beverage Marketing Corp.; Bozell; 2001 Ad Views

Similarly, taking a more targeted approach toward teens and shifting the advertising and promotional focus to flavored milk seems to have had a powerful positive affect on milk consumption by teens. In 2001, per capita consumption by 13-17 year olds grew for the first time since 1996 up by 2.8%. See **Figure 4-11**. Between 1997 and 2000, the change in per capita milk consumption by teens averaged -6.4% annually and had a CAGR of -4.2%. In 2001, milk's advertising expenditure targeted at teens increased more than four-fold, from \$5.3 million in 2000 to \$22.9 million in 2001. Promotions and public relations efforts targeted to teens were also increased as part of the re-focusing of the campaign. Reversing four years of decline and posting a 2.8% gain is a significant accomplishment and seems largely attributable to the strong focus of both advertising and promotional efforts on children and teens, and on flavored milk.



Figure 4-11



Source: Beverage Marketing Corp.; SIP

Milk's gains with the 6–12 year-old and teen cohorts are important because it is at this age that children begin to form life-long brand and product loyalties, as well as life-long eating and drinking habits. Kids and teens have been targeted either directly through media channels, through school programs or through “gatekeepers” like parents who control the options of children. Though still early in the program, the focus on the Hispanic segment is likely also to be successful in increasing milk consumption, by capturing some of the growth in this segment. During 2001, the marketing effort and advertising spend has been better focused on key demographic segments and the results seem to show a distinct positive effect.

Overall, however, milk continues losing consumption share to competitive beverage segments. See **Figure 4-3**. Milk's “healthy” position in the competitive set has been significantly undermined by the aggressive introduction of products and marketing messages in direct challenge to milk. Calcium fortified juices and vitamin enhanced bottled water, fruit drinks, and teas are the most popular examples of this competitive trend. Bottled water is projected by BMC to eclipse milk (as well as coffee and beer) and gain the second highest per capita consumption after carbonated soft drinks by 2004.

This year's total and per capita consumption decreases for milk indicate that milk programs may need some strategic re-thinking. As suggested in last year's report, the messaging must shift to higher-order consumer benefits, as competitors have co-opted the nutritional proposition (mainly calcium) supported by the milk program. As product, package and channel innovations increase the potential usage occasions for milk, an

evolution of the campaign may be necessary to fully leverage these new opportunities. There is increasing room for improved demographic and usage occasion segmentation to enhance the efficiency and impact of the campaign. This is essential in an atmosphere of static or decreasing budgets.

The milk program has evolved into a contemporary image-based campaign that still effectively communicates the nutritional benefits of milk. A contemporary image, however, is not in itself differentiating and shifting to a connection between milk's image and higher-order need states such as self-esteem, well-being, and confidence will be crucial for milk in order to compete for consumers' minds and hearts and not just their stomachs.

The positive consumption data reported for the crucial 6-12 year old and teen demographics is evidence of milk successfully targeting younger consumers and their gatekeepers. In addition, the campaign has responded to the need for strong, targeted messaging tailored to specific ethnic groups by tripling Hispanic advertising expenditure. However, generic advertising is at an inherent disadvantage compared to brand advertising. Without developing, marketing and innovating brands, milk will continue to be viewed as a commodity. Once more branded products and marketing programs emerge, coordination will be crucial to maximize the affect of the broad generic milk marketing programs with the targeted marketing of branded milk products.

Milk's advertising expenditures versus its competitive set must be made more competitive. While there is no proven quantitative link between share of advertising expenditures and sales, there is little doubt that the substantial advantage milk's competitors have developed in the volume of their message puts milk at a considerable disadvantage. Small targeted spending increases (generic and branded) can have significant impact and effectively do more with less gross spending.

In 2001, the alignment of milk marketing programs among producers, processors, and retailers improved markedly, but the opportunity is also growing faster now than ever before. The advent of competitive single-serve packages and the introduction of new flavors has increased the need for and the potential effectiveness of promotional events. Participation in marketing and promotional programs by dairy processors was up in 2001. Nevertheless, there are still significant improvements to be made. Further integrating the positioning, packaging, pricing, availability, and public relations efforts along with brand programs will have a positive multiplier affect as each piece of the marketing program further supports all others.

Retail educational programs in the areas of category management and merchandising may also provide valuable synergies between advertising and promotion impact. Milk is not likely to quickly develop executional expertise to rival its competitors in this area, but efforts to improve the merchandising, shelf management, and point-of-sale (POS) capabilities of the milk industry will become increasingly important as the mix of products grows and as milk begins to make inroads into more competitive channels. Programs to train field staff in sales and merchandising are important but equally important is an effort to change the attitude that milk does not need competitive point-of-sale and merchandising.

Once again, innovation remains the key to milk's future growth. New products, packages, flavors, and channels must continue to be developed, brought to market by processors and supported by generic and brand milk marketing programs. Milk has a strong advertising campaign but needs the products and execution to match the messaging.

Moving forward, there are four crucial activities to be carried out to improve milk's position: evolve the marketing message towards higher-order consumer need states, continue to heighten the focus on key demographics/targets, continue to develop and make available new products for more diverse usage occasions, including strong branded products/programs, and maximize distribution through non-traditional channels.

# APPENDICES

- Appendix A      National Dairy Promotion and Research Board  
                    A-1   Current Member Listing
- National Fluid Milk Processor Promotion Board  
                    A-2   Current Member Listing
- Appendix B      B-1   Regions of the National Dairy Promotion and Research Board  
                    B-2   Regions of the National Fluid Milk Processor Promotion Board
- Appendix C      C-1   National Dairy Board Actual Income and Expenses, Fiscal Years '99-2001  
                    C-2   USDA Oversight Costs for the National Dairy Board, Fiscal Years '97-2001  
                    C-3   National Dairy Board Approved Budgets, Fiscal Years 2000-2002  
                    C-4   National Fluid Milk Board Actual Income and Expenses '97-2001  
                    C-5   USDA Oversight Costs for the National Fluid Milk Board '97-2001  
                    C-6   National Fluid Milk Board Approved Budgets, Fiscal Years '98-2002
- Appendix D      Financial Audits  
                    D-1   National Dairy Promotion and Research Board  
                    D-2   National Fluid Milk Processor Promotion Board
- Appendix E      E-1   National Dairy Board and Dairy Management Inc.  
                            Contracts Reviewed by USDA, 2001  
                    E-2   National Fluid Milk Processor Promotion Board and  
                            International Dairy Foods Association Contracts Reviewed by USDA, 2001
- Appendix F      National Dairy Board Dairy Foods and Nutrition Research Programs  
                    F-1   Nutrition and Health Research Institutes and Dairy Foods Research Centers  
                    F-2   Dairy Foods Competitive Research Activities During 2001  
                    F-3   Nutrition Competitive Research Activities During 2001
- Appendix G      Qualified State or Regional Dairy Product Promotion, Research, or Nutrition  
                    Education Programs, 2001

# APPENDIX A-1

## NATIONAL DAIRY PROMOTION AND RESEARCH BOARD CURRENT MEMBER LISTING

---

### REGION 1 (Oregon & Washington)

**Marlin J. Rasmussen**

St. Paul, Oregon

1<sup>st</sup> Term Expires 10/31/04

---

### REGION 2 (California)

**William R. Ahlem, Jr.**

Hilmar, California

2<sup>nd</sup> Term Expires 10/31/04**Robert R. Bignami**

Chico, California

1<sup>st</sup> Term Expires 10/31/04**Margaret A. Gambonini**

Petaluma, California

1<sup>st</sup> Term Expires 10/31/04**Dennis A. Leonardi**

Ferndale, California

1<sup>st</sup> Term Expires 10/31/03**Patricia M. Van Dam**

Chino, California

1<sup>st</sup> Term Expires 10/31/04**John Zonneveld, Jr.**

Laton, California

1<sup>st</sup> Term Expires 10/31/02

---

### REGION 3 (Arizona, Colorado, Idaho, Montana, Nevada, Utah, & Wyoming)

**Steve P. Frischknecht**

Manti, Utah

2<sup>nd</sup> Term Expires 10/31/04**Pete R. Lizaso**

Emmett, Idaho

2<sup>nd</sup> Term Expires 10/31/03**Paul E. Rovey**

Glendale, Arizona

(Vice-Chair 01/00-11/00)

(Chair 11/00-Present)

2<sup>nd</sup> Term Expires 10/31/02

---

### REGION 4 (Arkansas, Kansas, New Mexico, Oklahoma, & Texas)

**Charles W. Bryant**

Austin, Arkansas

1<sup>st</sup> Term Expires 10/31/03**Lynda Foster**

Fort Scott, Kansas

2<sup>nd</sup> Term Expires 10/31/04**Neil A. Hoff**

Windthorst, Texas

1<sup>st</sup> Term Expires 10/30/02

---

### REGION 5 (Minnesota, North Dakota, & South Dakota)

**Arlon E. Fritsche**

New Ulm, Minnesota

1<sup>st</sup> Term Expires 10/31/03**Loren E. Jons**

Bonesteel, South Dakota

1<sup>st</sup> Term Expires 10/31/03**Glen E. Schroeder**

Caledonia, Minnesota

2<sup>nd</sup> Term Expires 10/31/02

---

### REGION 6 (Wisconsin)

**Patricia M. Boettcher**

Bloomer, Wisconsin

1<sup>st</sup> Term Expires 10/31/02**Rosalie M. Geiger**

Reedsville, Wisconsin

1<sup>st</sup> Term Expires 10/31/04**Janet M. Nelson**

Prairie Farm, Wisconsin

1<sup>st</sup> Term Expires 10/31/02**Allard L. Peck**

Chippewa Falls, Wisconsin

1<sup>st</sup> Term Expires 10/31/03

**NATIONAL DAIRY PROMOTION AND RESEARCH BOARD**  
**CURRENT MEMBER LISTING (CONTINUED)**

---

**REGION 6 (Wisconsin) Continued**

**Connie M. Seefeldt**  
Coleman, Wisconsin  
1<sup>st</sup> Term Expires 10/31/03

---

**REGION 7 (Illinois, Iowa, Missouri, & Nebraska)**

**Wayne E. Dykshorn**  
Ireton, Iowa  
1<sup>st</sup> Term Expires 10/31/03

**William B. Siebenborn**  
Trenton, Missouri  
(Secretary 01/00-11/00)  
(Vice-Chair 11/00-Present)  
2<sup>nd</sup> Term Expires 10/31/02

---

**REGION 8 (Alabama, Kentucky, Louisiana, Mississippi, & Tennessee)**

**James S. Cook**  
Evergreen, Alabama  
2<sup>nd</sup> Term Expires 10/31/02

---

**REGION 9 (Indiana, Michigan, Ohio, & West Virginia)**

**Merle L. Chaplin**  
Moundsville, West Virginia  
2<sup>nd</sup> Term Expires 10/31/03

**Joseph P. Logan**  
Kinsman, Ohio  
1<sup>st</sup> Term Expires 10/31/02

**Alice S. Moore**  
Fazeysburg, Ohio  
1<sup>st</sup> Term Expires 10/31/04

---

**REGION 10 (Florida, Georgia, North Carolina, South Carolina, & Virginia)**

**Robert K. Herman**  
Taylorsville, North Carolina  
2<sup>nd</sup> Term Expires 10/31/04

**Sanford L. Jones, Jr.**  
Quitman, Georgia  
1<sup>st</sup> Term Expires 10/31/03

---

**REGION 11 (Delaware, Maryland, New Jersey, & Pennsylvania)**

**Deborah A. Benner**  
Mt. Joy, Pennsylvania  
1<sup>st</sup> Term Expires 10/31/04

**Rita Kennedy**  
Valencia, Pennsylvania  
1<sup>st</sup> Term Expires 10/31/02

**Lewis Gardner**  
Galeton, Pennsylvania  
1<sup>st</sup> Term Expires 10/31/03

---

**REGION 12 (New York)**

**Audrey G. Donahoe**  
Frankfort, New York  
1<sup>st</sup> Term Expires 10/31/02

**David E. Hardie**  
Lansing, New York  
1<sup>st</sup> Term Expires 10/31/04

**Edgar A. King**  
Schuylerville, New York  
1<sup>st</sup> Term Expires 10/31/03

---

**REGION 13 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, & Vermont)**

**Claude J. Bourbeau**  
Swanton, Vermont  
1<sup>st</sup> Term Expires 10/31/02

## APPENDIX A-2

### NATIONAL FLUID MILK PROCESSOR PROMOTION BOARD CURRENT MEMBER LISTING<sup>1</sup>

---

**REGION 1** (Connecticut, Maine, Massachusetts,  
New Hampshire, Rhode Island, & Vermont)

**Peter M. Ross**  
**Garelick Farms, Inc., Dean Foods Co.**  
Franklin, Massachusetts  
Term Expires - 06/2004

---

**REGION 2** (New Jersey & New York)

**Mary Ellen Spencer**  
**H. P. Hood, Inc.**  
Chelsea, Massachusetts  
Term Expires - 06/2005

---

**REGION 3** (Delaware, Maryland, Pennsylvania,  
Virginia, & District of Columbia)

**Michael F. Nosewicz**  
**The Kroger Company**  
Cincinnati, Ohio  
Term Expires - 06/2003

---

**REGION 4** (Georgia, North Carolina, & South  
Carolina)

**Joseph Cervantes**  
**Crowley Foods, LLC,**  
**National Dairy Holdings, Inc.**  
Binghamton, New York  
Term Expires 06/2004

---

**REGION 5** (Florida)

**James S. Jaskiewicz**  
**Publix Supermarkets, Inc.**  
Lakeland, Florida  
Term Expires - 06/2005

---

**REGION 6** (Ohio & West Virginia)

**William R. McCabe**  
**Smith Dairy Products Co.**  
Orrville, Ohio  
Term Expires - 06/2004

---

**REGION 7** (Michigan, Minnesota, North Dakota,  
South Dakota, & Wisconsin)

**Rachel Kylo**  
**Marigold Foods, Inc.,**  
**National Dairy Holdings, Inc.**  
Minneapolis, Minnesota  
Term Expires - 06/2004

---

**REGION 8** (Illinois & Indiana)

**Roger D. Capps**  
**Prairie Farms Dairy, Inc.**  
Carlinville, Illinois  
Term Expires - 06/2005

---

**REGION 9** (Alabama, Kentucky, Louisiana,  
Mississippi, & Tennessee)

**James W. Turner**  
**Turner Holdings, L.L.C.**  
Memphis, Tennessee  
Term Expires - 06/2003

---

**REGION 10** (Texas)

**John Robinson**  
**Dean Foods Co.**  
Dallas, Texas  
(Vice-Chair 7/01-7/02)  
(Chair - 07/02 - Present)  
Term Expires - 06/2004

---

**REGION 11** (Arkansas, Iowa, Kansas, Missouri,  
Nebraska, & Oklahoma)

**Gary L. Aggus**  
**Hiland Dairy Foods**  
Springfield, Missouri  
Term Expires - 06/2005

---

**REGION 12** (Arizona, Colorado, New Mexico,  
Nevada, & Utah)

**Lawrence V. Jackson**  
**Safeway, Inc.**  
Pleasanton, California  
Term Expires - 06/2004

---

**REGION 13** (Idaho, Montana, Oregon, Washington,  
& Wyoming)

**James T. Wilcox III**  
**Wilcox Dairy Farms, LLC**  
Roy, Washington  
Term Expires - 06/2004

---

**REGION 14** (Northern California)

**Ronald M. Foster**  
**Foster Dairy Farms**  
Modesto, California  
Term Expires - 06/2005

---

**REGION 15** (Southern California)

**Richard Walrack**  
**Santee Dairies, Inc.**  
City of Industry, California  
Term Expires - 06/2003

---

**MEMBERS-AT-LARGE**

**Robert E. Baker<sup>2</sup>**  
Omaha, Nebraska  
Term Expires - 06/2003

**John R. Jilbert**  
**Jilbert Dairy, Inc.**  
Marquette, Michigan  
Term Expires - 06/2003

**Michael A. Krueger**  
**Shamrock Foods Company**  
Phoenix, Arizona  
Term Expires - 06/2004

**Charles D. Price**  
**Galliker Dairy Company**  
Johnstown, Pennsylvania  
Term Expires - 06/2005

**Joseph W. Van Treeck<sup>2</sup>**  
Anchorage, Alaska  
Term Expires - 06/2004

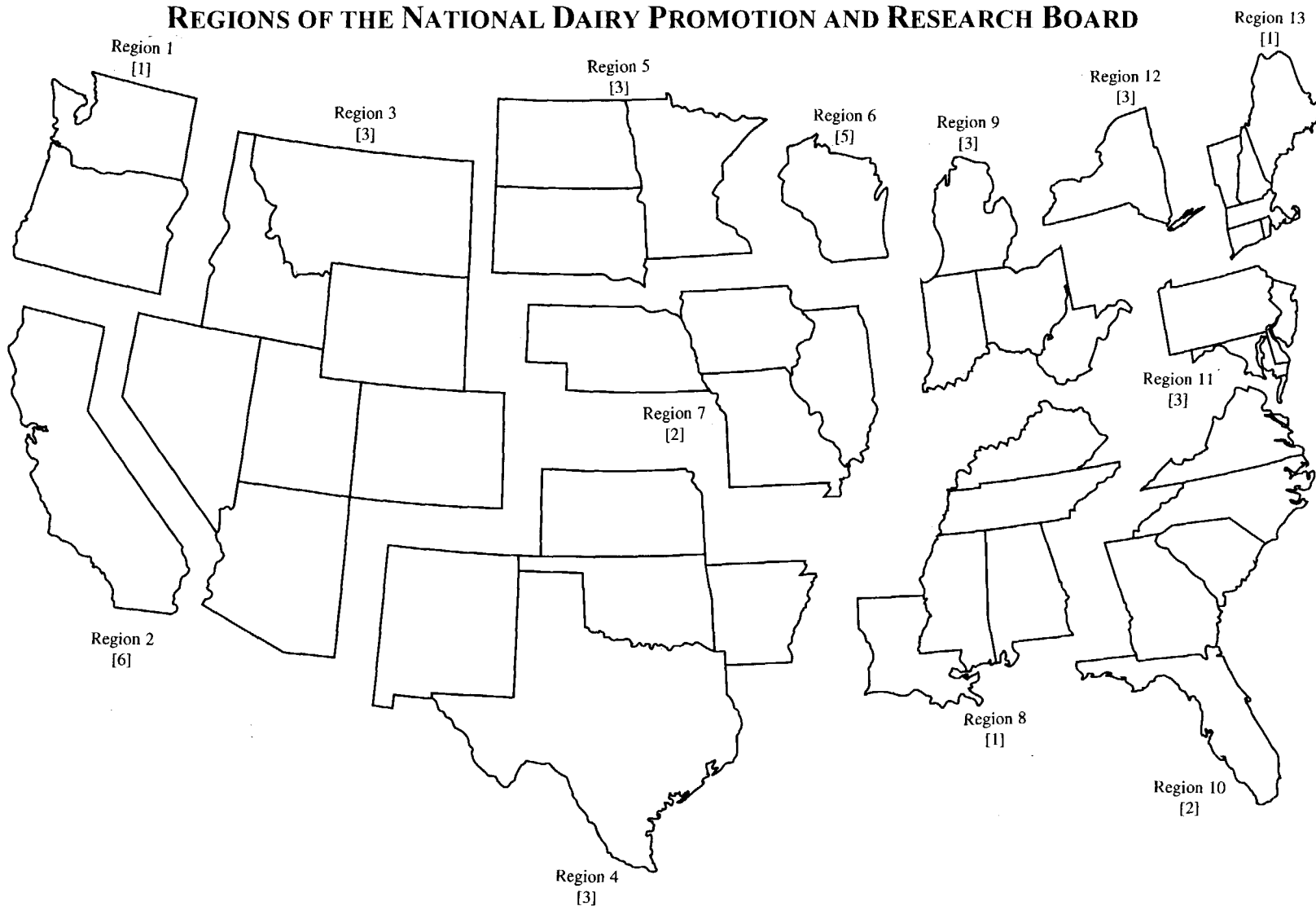
<sup>1</sup> Newly appointed members are seated at the Fluid Milk Board's  
July annual meetings, respectively.

<sup>2</sup> Public Member.



## APPENDIX B-1

### REGIONS OF THE NATIONAL DAIRY PROMOTION AND RESEARCH BOARD



NOTE: The number in brackets below each region indicates the number of members within that region.

## APPENDIX B-2

### REGIONS OF THE NATIONAL FLUID MILK PROCESSOR PROMOTION BOARD



---

**APPENDIX C-1**  
**NATIONAL DAIRY BOARD ACTUAL INCOME AND EXPENSES 1999 - 2001**  
(in \$000's)

---

	1999	2000	2001
<b>INCOME</b>			
Assessments	80,832	84,746	83,633
Interest	447	599	369
Other	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Income</b>	<b>81,279</b>	<b>85,345</b>	<b>84,002</b>
<b>GENERAL EXPENDITURES</b>			
General & Administrative	2,667	2,570	2,676
USDA	<u>407</u>	<u>567</u>	<u>471</u>
<b>Total General Expenditures</b>	<b>3,074</b>	<b>3,137</b>	<b>3,147</b>
<b>PROGRAM EXPENDITURES</b>			
Communications & Member Relations	4,044	4,426	7,929
Domestic Marketing	66,280	65,237	73,229
Export Enhancement	5,955	6,171	5,565
Planning & Research	<u>4,015</u>	<u>3,742</u>	<u>2,537</u>
<b>Total Program Expenditures</b>	<b>80,294</b>	<b>79,576</b>	<b>89,260</b>
Excess of Revenue (Under) Over Expenditures	(2,089)	2,632	(8,405)
<b>Fund Balance, Beginning of Year</b>	<b>15,631</b>	<b>13,541</b>	<b>16,173</b>
<b>Fund Balance, End of Year</b>	<b>13,541</b>	<b>16,173</b>	<b>7,768</b>

---

SOURCE: Independent Auditor's Report of the National Dairy Board and USDA Records.

---

---

**APPENDIX C-2**  
**USDA OVERSIGHT COSTS FOR THE NATIONAL DAIRY BOARD 1997 - 2001**

---

	1997	1998	1999	2000	2001
Salaries & Benefits	\$254,845	\$238,526	\$244,793	286,546	\$283,350
Travel	19,740	11,555	22,514	28,983	21,925
Miscellaneous <sup>1</sup>	33,656	68,576	47,204	63,614	74,054
Equipment	5,210	3,514	5,887	4,205	4,731
Printing	<u>3,715</u>	<u>1,955</u>	<u>8,825</u>	<u>5,622</u>	<u>5,551</u>
<b>AMS OVERSIGHT</b>	<b>\$317,166</b>	<b>\$324,126</b>	<b>\$329,223</b>	<b>\$388,970</b>	<b>\$389,611</b>
 <b>INDEPENDENT EVALUATION</b>	 <b><u>\$151,040</u></b>	 <b><u>\$ 96,888</u></b>	 <b><u>\$ 21,600</u></b>	 <b><u>\$ 65,331</u></b>	 <b><u>\$99,837</u></b>
 <b>TOTAL<sup>2</sup></b>	 <b>\$468,206</b>	 <b>\$421,014</b>	 <b>\$350,823</b>	 <b>\$454,301</b>	 <b>\$489,448</b>

---

<sup>1</sup> Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and the Office of the General Counsel.

<sup>2</sup> The totals for USDA expenses differ slightly from those shown in Appendix C-1 for some years because of end-of-year estimates which are adjusted in the following fiscal year.

AMS - Agricultural Marketing Service. SOURCE: Monthly billings by USDA-AMS-Dairy Programs to the National Dairy Board.

---

---

**APPENDIX C-3**  
**NATIONAL DAIRY BOARD APPROVED BUDGETS 2000 - 2002**  
(in \$000's)

---

	2000	2001	2002
<b>REVENUES</b>			
Assessments	81,150	84,200	84,750
Interest	<u>450</u>	<u>475</u>	<u>250</u>
<b>Total Income</b>	<b>81,600</b>	<b>84,675</b>	<b>85,000</b>
 Carryover from Previous FY	-	-	-
Program Development Fund	<u>2,756</u>	<u>6,928</u>	<u>2,307</u>
<b>Total Available Funds</b>	<b>84,356</b>	<b>91,603</b>	<b>87,307</b>
 <b>EXPENSES</b>			
General & Administrative	2,768	3,275	2,971
USDA - AMS Oversight	450	500	525
Independent Evaluation	<u>-</u>	<u>-</u>	<u>-</u>
<b>Subtotal</b>	<b>3,218</b>	<b>3,775</b>	<b>3,496</b>
 <b>PROGRAM BUDGET</b>			
Domestic Marketing	66,971 [82.5%]	74,413 [84.7%]	66,032 [78.7%]
Communications & Member Relations	4,136 [ 5.1%]	5,904 [ 6.7%]	9,651 [11.2%]
Planning & Research	3,937 [ 4.9%]	2,368 [ 2.7%]	3,532 [ 4.3%]
Export Enhancement	<u>6,094 [ 7.5%]</u>	<u>5,143 [ 5.9%]</u>	<u>4,776 [ 5.8%]</u>
<b>Subtotal</b>	<b>81,138 [100%]</b>	<b>87,828 [100%]</b>	<b>83,991 [100%]</b>
 <b>Total Budget</b>	<b>84,356</b>	<b>91,603</b>	<b>87,307</b>

---

SOURCE: Budgets received and approved by USDA from the National Dairy Board.

---

**APPENDIX C-4**  
**NATIONAL FLUID MILK BOARD ACTUAL INCOME AND EXPENSES 1997 - 2001**  
(in \$000's)

	7/97-6/98	7/98-12/98 <sup>2</sup>	1/99-12/99	1/00-12/00	1/01-12/01
<b>INCOME</b>					
Assessments	110,237	55,316	109,532	109,290	107,693
Late Payment Charges	284	15	48	51	241
Interest	908	515	545	639	404
Other	-	-	112	21	676
<b>Total Income</b>	<b>111,429</b>	<b>55,846</b>	<b>110,237</b>	<b>110,001</b>	<b>109,014</b>
<b>GENERAL EXPENDITURES</b>					
California Refund	10,374	5,287	10,275	10,217	10,036
Administrative Expenses	2,263	1,054	2,683	2,310	2,117
Other Administrative Services	-	-	-	-	-
Financial Services	-	-	-	-	-
USDA - AMS Oversight	232	135	262	368	321
Independent Evaluation	40	36	61	-	-
Compliance	-	-	45	24	43
Bad Debt Expense	830	-	74	9	-
<b>Total General Expenditures</b>	<b>13,739</b>	<b>6,512</b>	<b>13,400</b>	<b>12,928</b>	<b>12,517</b>
<b>PROGRAM EXPENDITURES</b>					
Media	75,140	46,289	71,607	68,287	73,943
Public Relations	8,458	8,819	11,217	10,714	9,582
Promotions	4,103	5,330	12,007	14,475	10,150
Strategic Thinking	153	156	553	458	503
Medical Advisory Panel	47	146	221	206	200
American Heart Association	120	24	497	19	120
Research, Local Markets, & Program Measurement	1,607	239	920	997	614
<b>Total Program Expenditures</b>	<b>89,628</b>	<b>61,003</b>	<b>97,022</b>	<b>95,158</b>	<b>95,112</b>
Excess of revenue (under) over expenditures	8,062	(11,667)	(184)	1,915	1,385
Beginning of year fund balance	17,177	25,239	13,572	13,388	15,303
End of year fund balance	25,239	13,572	13,388	15,303	16,688

NOTE: AMS - Agricultural Marketing Service. SOURCE: Independent Auditor's Report of the Fluid Milk Board and USDA records.

---

**APPENDIX C-5**  
**USDA OVERSIGHT COSTS FOR THE NATIONAL FLUID MILK BOARD 1997 - 2001**

---

	1997	1998	1999	2000	2001
Salaries & Benefits	\$186,255	\$161,057	\$176,181	\$243,281	\$246,200
Travel	11,654	11,042	11,718	20,617	12,843
Miscellaneous <sup>1</sup>	32,254	62,332	39,525	48,090	50,771
Equipment	203	4,400	13,975	4,389	4,868
Printing	<u>6,694</u>	<u>2,356</u>	<u>6,841</u>	<u>5,137</u>	<u>6,571</u>
<b>AMS OVERSIGHT</b>	<b>\$237,060</b>	<b>\$241,187</b>	<b>\$248,240</b>	<b>\$321,514</b>	<b>\$321,253</b>
 <b>INDEPENDENT EVALUATION</b>	 <b><u>\$61,300</u></b>	 <b><u>\$52,170</u></b>	 <b><u>\$14,400</u></b>	 <b><u>\$24,555</u></b>	 <b><u>\$32,667</u></b>
 <b>TOTAL<sup>2</sup></b>	 <b>\$298,360</b>	 <b>\$293,357</b>	 <b>\$262,640</b>	 <b>\$346,069</b>	 <b>\$353,920</b>

---

<sup>1</sup> Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and the Office of the General Counsel.

<sup>2</sup> The totals for USDA expenses differ slightly from those shown in Appendix C-4 for some years because of end-of-year estimates which are adjusted in the following fiscal year.  
AMS - Agricultural Marketing Service. Source: Monthly billings by USDA-AMS-Dairy Programs to the National Fluid Milk Board.

---

## APPENDIX C-6

### NATIONAL FLUID MILK BOARD APPROVED BUDGETS 1998 - 2002

(in \$000's)

	7/98-6/99 <sup>1</sup>	1999 <sup>2</sup>	2000	2001	2002
<b>REVENUES</b>					
Assessments	106,800	109,000	110,000	110,000	106,650
Interest	-	600	-	-	-
<b>Total Revenues</b>	<b>106,800</b>	<b>109,600</b>	<b>110,000</b>	<b>110,000</b>	<b>106,650</b>
California TV Rebate	-	-	601	800	-
Carryover from Previous FY	11,310	10,900	4,410	3,184	3,508
<b>Total Available Funds</b>	<b>118,100</b>	<b>120,500</b>	<b>115,011</b>	<b>113,984</b>	<b>110,158</b>
<b>EXPENSES</b>					
General and Administrative	1,980	2,830	2,308	3,000	2,280
USDA - AMS Oversight	280	280	280	350	350
Independent Evaluation	90	90	<sup>3</sup>	<sup>3</sup>	<sup>3</sup>
Processor Compliance	-	95	<sup>4</sup>	<sup>4</sup>	<sup>4</sup>
Reserve/Contingency	-	-	3,000	-	-
California Refund	10,220	10,220	10,300	10,300	10,146
<b>Subtotal</b>	<b>12,570</b>	<b>13,515</b>	<b>15,888</b>	<b>13,650</b>	<b>12,776</b>
<b>PROGRAM BUDGET</b>					
Advertising	73,623 [71.5%]	77,180 [72.3%]	70,103 [71.1%]	74,640 [74.4%]	74,417 [76.8%]
Public Relations	12,005 [11.7%]	11,563 [10.8%]	11,099 [11.3%]	9,390 [9.4%]	10,900 [11.2%]
Promotions	14,985 [14.5%]	15,455 [14.5%]	14,894 [15.1%]	13,529 [13.5%]	7,031 [7.3%]
Strategic Thinking	1,000 [1.0%]	1,000 [0.9%]	774 [0.8%]	700 [0.7%]	900 [0.9%]
Medical Advisory Panel	300 [0.3%]	400 [0.4%]	263 [0.3%]	250 [0.2%]	200 [0.2%]
Research	1,000 [1.0%]	1,205 [1.1%]	854 [0.9%]	1,625 [1.6%]	1,653 [1.7%]
Local Markets	-	-	395 [0.4%]	-	-
AHA On-Pack, Other	-	-	-	-	650 [0.7%]
Program Management	-	-	-	-	991 [1.0%]
Program Measurement	-	-	213 [0.2%]	200 [0.2%]	150 [0.2%]
<b>Subtotal</b>	<b>102,913 [100%]</b>	<b>106,803 [100%]</b>	<b>98,595 [100%]</b>	<b>100,334 [100%]</b>	<b>96,892 [100%]</b>
Unallocated	2,627	237	528	-	490
<b>Total Budget</b>	<b>110,600</b>	<b>118,110</b>	<b>115,011</b>	<b>113,984</b>	<b>110,158</b>

<sup>1</sup>Fourth fiscal period was 7/98-12/98. <sup>2</sup>Fiscal year changed to calendar year. <sup>3</sup>Independent Evaluation costs are included in Program Measurement expenses. <sup>4</sup>Processor Compliance included in General and Administrative expenses.

NOTE: AMS - Agricultural Marketing Service. SOURCE: Budgets received and approved by USDA from the Fluid Milk Board.





## APPENDIX D-1

303 East Wacker Drive  
Chicago, IL 60601-5212

### Independent Accountants' Report On Applying Agreed-upon Procedures

The Board of Directors  
National Dairy Promotion and Research Board:

We have performed the procedures enumerated below, which were agreed to by the U.S. Department of Agriculture (USDA) and National Dairy Promotion and Research Board (NDB), solely to assist the specified parties in evaluating the entities' compliance with The Dairy and Tobacco Adjustment Act of 1983 (Act), the Dairy Promotion and Research Order (Order), and the Agricultural Marketing Services Directive (Directive) entitled *Investments of Public Funds* as of and for the year ended December 31, 2001. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings were as follows:

(a) We obtained NDB's budget for the year ended December 31, 2001 and sighted the signature of the Secretary of the USDA.

(b) We selected four investment purchase transactions from calendar year 2001, compared them against their respective brokers' advices, and noted the following:

- The investments were in either U.S. Government Securities or Federal Agency Securities,
- The investments had maturity periods of one year or less;
- The U.S. Government Securities and Federal Agency Securities were held in the name of NDB at the institution.

(c) We obtained the 1995 investment files and sighted various broker's advices noting that the investment records have been maintained for six years.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the USDA and NDB and is not intended to be and should not be used anyone other than these specified parties.

**KPMG LLP**

April 1, 2002



303 East Wacker Drive  
Chicago, IL 60601-5212

The Board of Directors  
National Dairy Promotion and Research Board

April 1, 2002

Ladies and Gentlemen:

We have audited the consolidated financial statements of the National Dairy Promotion and Research Board, for the year ended December 31, 2001, and have issued our report thereon dated April 1, 2002. In planning and performing our audit of the financial statements of the National Dairy Promotion and Research Board, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the United States Department of Agriculture, the Board of Directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**



303 East Wacker Drive  
Chicago, IL 60601-5212

## **Independent Auditors' Report**

The Board of Directors  
National Dairy Promotion and Research Board:

We have audited the accompanying balance sheets of National Dairy Promotion and Research Board (NDB) as of December 31, 2001 and 2000, and the related statements of operations and changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the NDB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Dairy Promotion and Research Board at December 31, 2001 and 2000, and the results of its operations, and changes in its fund balance and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our 2001 audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**KPMG LLP**

April 1, 2002

# NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

## Balance Sheets

December 31, 2001 and 2000

Assets	<u>2001</u>	<u>2000</u>
Cash and cash equivalents	\$ 7,829,872	13,554,973
Assessments receivable	8,657,497	10,271,926
Accrued interest receivable	5,009	75,391
Fixed assets (net of accumulated depreciation of \$100,279 and \$94,720 in 2001 and 2000, respectively)	<u>34,517</u>	<u>12,690</u>
	<u>\$ 16,526,895</u>	<u>23,914,980</u>
 <b>Liabilities and Fund Balance</b>		
Accounts payable:		
Related party - DMI	\$ 8,362,285	7,277,510
Other	59,817	—
Accrued expenses and other liabilities	<u>336,714</u>	<u>464,642</u>
Total liabilities	8,758,816	7,742,152
Commitments (note 5)		
Fund balance	<u>7,768,079</u>	<u>16,172,828</u>
Total liabilities and fund balance	<u>\$ 16,526,895</u>	<u>23,914,980</u>

See accompanying notes to financial statements.

# NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

## Statements of Cash Flows

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	\$ (8,404,749)	2,631,422
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,560	10,741
Changes in assets and liabilities:		
Assessments receivable	1,614,429	(510,973)
Accrued interest receivable	70,382	(56,297)
Accounts payable	1,144,592	362,641
Accrued expenses and other liabilities	<u>(127,928)</u>	<u>276,267</u>
Net cash provided by (used in) operating activities	(5,697,714)	2,713,801
Net cash used in investing activities:		
Acquisition of property and equipment	<u>(27,387)</u>	<u>(14,100)</u>
Net increase (decrease) in cash and cash equivalents	(5,725,101)	2,699,701
Cash and cash equivalents at beginning of year	<u>13,554,973</u>	<u>10,855,272</u>
Cash and cash equivalents at end of year	<u>\$ 7,829,872</u>	<u>13,554,973</u>

See accompanying notes to financial statements.

## NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

### Notes to Financial Statements

December 31, 2001 and 2000

#### (1) Organization

The National Dairy Promotion and Research Board (NDB) was established on May 1, 1984, pursuant to The Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180), as part of a comprehensive strategy to reduce milk surplus supplies and increase human consumption of milk and dairy products. The purpose of NDB is to establish a coordinated program of promotion and research designed to strengthen the dairy industry's position in the marketplace and to maintain and expand domestic and foreign markets and uses for fluid milk and dairy products produced in the United States.

The United States Department of Agriculture (USDA) approved a joint venture between NDB and the United Dairy Industry Association (UDIA) to form Dairy Management Inc. (DMI) effective January 1, 1995. The purpose of DMI, a related organization, is to promote greater coordination, efficiency and effectiveness and avoid incompatibility and duplication in the programs and projects under taken by NDB and UDIA. NDB and UDIA will jointly plan, develop, and implement their various programs and activities through DMI, subject to the approval of the USDA.

NDB funds DMI on a cost reimbursement basis. Core costs, which include staff salaries and benefits, travel, Board of Directors, and office overhead expenses are funded by NDB and UDIA. Core costs are primarily funded by NDB, with UDIA funding one-half of Board of Directors and executive office costs. Program costs, which include expenses associated with implementing the programs of NDB and UDIA, are funded by NDB and UDIA based on the planned funding source of the individual program. NDB has funded DMI core costs of \$12,828,399 and \$11,439,846 and program costs of \$76,815,232 and \$69,295,323, for activity related to the years ended December 31, 2001 and 2000, respectively.

The U.S. Dairy Export Council (USDEC) is a related organization that was founded by the boards of both NDB and UDIA and began operations effective January 1, 1996. The purpose of USDEC is to improve the marketing conditions of the U.S. dairy industry with respect to the export of U.S. dairy products and to promote the industry as a whole by improving the acceptability, consumption, and purchase of U.S. dairy products in foreign countries. For the years ended December 31, 2001 and 2000, NDB reimbursed DMI \$5,362,806 and \$6,094,000, respectively, for USDEC's program operations.

#### (2) Summary of Significant Accounting Policies

The financial statements of NDB have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

##### (a) Cash Equivalents

NDB considers debt instruments with an original maturity of three months or less to be cash equivalents.

## **NATIONAL DAIRY PROMOTION AND RESEARCH BOARD**

### **Notes to Financial Statements**

December 31, 2001 and 2000

**(b) Assessments**

Assessment revenue is generated by a mandatory assessment of 15 cents per hundredweight on all milk produced and marketed in the United States. Milk marketers (or responsible persons) can receive a credit of up to 10 cents per hundredweight for payments to qualified state and regional promotion programs. For the years ended December 31, 2001 and 2000, the net NDB assessment was approximately 5.12 and 5.10 cents per hundredweight of milk marketed, respectively.

Assessment revenue is recognized in the month in which milk is marketed through the process of estimating the amount of milk marketed and the average payment per hundredweight. Such receivables may be more or less than the amounts ultimately collected based upon actual milk marketed and actual assessments collected per hundredweight (see note 4).

**(c) Fixed Assets**

Fixed assets consist of computer equipment and software and are recorded at cost. Depreciation and amortization are provided in amounts sufficient to charge the cost of depreciable assets to operations over estimated service lives of approximately 3-7 years using the straight-line method.

**(d) Contract and Grant Expense**

Expenses related to contracts are recognized as incurred. Grants for research projects typically require periodic reporting of project status and payments. Such payments are expensed as progress is achieved. In addition, a portion of fund balance is designated for future payments under existing contracts and grants (see note 5).

**(e) Income Taxes**

NDB has received a determination letter from the Internal Revenue Service indicating that it is exempt from Federal and state income taxes on related income under 501(c)(3) of the Internal Revenue Code. There was no unrelated business taxable income for the years ended December 31, 2001 and 2000; therefore, no provision for income taxes has been reflected in the accompanying financial statements related to activities of NDB.

**(f) Use of Estimates**

Management of NDB has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**(g) Employee Costs**

NDB's operations are staffed by DMI employees, who receive vacation, sick pay, health, and other benefits.

# NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

## Notes to Financial Statements

December 31, 2001 and 2000

### (3) Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31:

	<u>2001</u>	<u>2000</u>
Operating cash in banks and on hand	\$ 485,156	271,371
Repurchase agreements with commercial banks	—	5,885,000
Federal agency discounted securities	<u>7,344,716</u>	<u>7,398,602</u>
	<u>\$ 7,829,872</u>	<u>13,554,973</u>

All cash and cash equivalents are insured (FDIC) and collateralized by U.S. government securities held in the name of NDB.

### (4) Assessments Receivable

Assessments receivable are recorded at the estimated net amounts to be received based on the amount of milk marketed and the average payment per hundredweight. In accordance with Public Law 98-180, NDB forwards unpaid assessments to the USDA for further action and/or legal proceedings. As of December 31, 2001 and 2000, approximately \$384,000 of cumulative unpaid assessments were at USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2001 and 2000, and will not be recorded as revenue until such amounts are ultimately received. Civil penalties exist for any persons who do not pay the assessment and/or file reports with NDB.

### (5) Fund Balance

During 2001 and 2000, NDB's Board designated a portion of fund balance for use in continued funding of programs and for cash reserves. Total designations of fund balance are as follows:

	<u>2001</u>	<u>2000</u>
Domestic marketing	\$ 724,238	680,502
Planning and Research	19,622	—
Export	<u>—</u>	<u>1,935,125</u>
Total program designations	743,860	2,615,627
Future year budget	2,307,000	6,658,000
Cash reserves	<u>1,800,000</u>	<u>1,800,000</u>
Total designated fund balance	4,850,860	11,073,627
Undesignated fund balance	<u>2,917,219</u>	<u>5,099,201</u>
Total fund balance	<u>\$ 7,768,079</u>	<u>16,172,828</u>



## NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

### Notes to Financial Statements

December 31, 2001 and 2000

The program designations as of December 31, 2001 and 2000 relate to contract commitments made during the following years:

	<u>2001</u>	<u>2000</u>
2001	\$ 743,860	—
2000	—	1,966,797
1999	—	<u>648,830</u>
Total contract commitments	\$ <u>743,860</u>	<u>2,615,627</u>

#### (6) Transactions with the United States Department of Agriculture

NDB reimburses the USDA for the cost of oversight activities and economic research services. These reimbursements amounted to \$471,212 and \$566,972 for the years ended December 31, 2001 and 2000, respectively.

## NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

## Supplemental Schedule of Reconciliation of Operations Budget

Year ended December 31, 2001

	<u>2001 total expenses</u>	<u>Commitments expensed in 2001</u>	<u>2001 commitments</u>	<u>2001 operations budget statement</u>
Organizational group expenses:				
Domestic marketing group	\$ 73,228,579	680,502	724,238	73,272,315
Planning and research group	2,537,295	—	19,622	2,556,917
Communications/member relations group	7,929,008	—	—	7,929,008
Export group	5,564,741	1,286,295	—	4,278,446
DMI core general and administrative	2,255,774	—	—	2,255,774
General and administrative	420,383	—	—	420,383
United States Department of Agriculture	471,212	—	—	471,212
Total organizational group expenses	<u>\$ 92,406,992</u>	<u>1,966,797</u>	<u>743,860</u>	<u>91,184,055</u>

This schedule reconciles the total expenses from the Statement of Operations and Changes in Fund Balance presented in accordance with accounting principles generally accepted in the United States of America to those reflected in the Operations Budget Statement which is used for management's internal purposes.

The commitments expensed in 2001 represent management's contract commitments established prior to January 1, 2001 which were expensed in the current year.

The 2001 commitments represent management's contract commitments established in 2001 against the 2001 approved program budget operations.

See accompanying independent auditors' report.

# NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

## Statements of Operations and Changes in Fund Balance

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Revenue:		
Assessments	\$ 83,632,543	84,746,001
Interest income	369,700	598,537
	<u>84,002,243</u>	<u>85,344,538</u>
Total revenue		
Expenses:		
Domestic marketing group	73,228,579	65,237,009
Planning and research group	2,537,295	3,742,254
Communications/member relations group	7,929,008	4,426,207
Export group	5,564,741	6,170,499
DMI core general and administrative	2,255,774	2,206,581
General and administrative	420,383	363,594
United States Department of Agriculture	471,212	566,972
	<u>92,406,992</u>	<u>82,713,116</u>
Total expenses		
Excess (deficiency) of revenue over expenses	(8,404,749)	2,631,422
Fund balance at beginning of year	<u>16,172,828</u>	<u>13,541,406</u>
Fund balance at end of year	<u>\$ 7,768,079</u>	<u>16,172,828</u>

See accompanying notes to financial statements.

## APPENDIX D-2



**SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.**

### Independent Auditor's Report

**To the Board of Directors  
National Fluid Milk Processor  
Promotion Board  
Washington, D.C.**

We have audited the accompanying Balance Sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2001, and the related Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows for the year then ended. These financial statements are the responsibility of the National Fluid Milk Processor Promotion Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2001, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2002 on our consideration of the National Fluid Milk Processor Promotion Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

*Snyder, Cohn, Collyer, Hamilton & Associates, P.C.*

March 8, 2002

# National Fluid Milk Processor Promotion Board

## Balance Sheet

---

December 31, 2001

---

### Assets

#### Current Assets:

Cash and Cash Equivalents	\$ 20,578,099
Assessments Receivable, net of allowance for uncollectible accounts of \$55,604	11,528,539
Interest Receivable	9,180
Other Receivables	984,514
Prepaid Charges	<u>7,878</u>

**Total Assets** **\$ 33,108,210**

### Liabilities and Net Assets

#### Current Liabilities:

Accounts Payable	<u>\$ 16,419,959</u>
------------------	----------------------

#### Net Assets:

Designated for Contingencies	4,500,000
Undesignated	<u>12,188,251</u>

Total Net Assets 16,688,251

**Total Liabilities and Net Assets** **\$ 33,108,210**

**National Fluid Milk Processor Promotion Board**

**Statement of Revenues, Expenses and Changes in Net Assets**

---

**For the year ended December 31, 2001**

---

**Revenues:**

Assessments	\$ 107,693,467
California Cut-In Fees	672,201
Late Payment Charges	240,816
Interest Income	403,923
Other	<u>3,283</u>

Total Revenues	<u>109,013,690</u>
----------------	--------------------

**Expenses:**

Program Expenses:

Media	73,942,851
Promotions	10,150,084
Public Relations	9,581,697
Strategic Thinking	503,155
Research	437,543
Medical Advisory Panel	200,127
American Heart Association	120,000
Medical Research	107,374
Program Measurement	<u>69,049</u>

Total Program Expenses	<u>95,111,880</u>
------------------------	-------------------

Other Expenses:

California Grant	10,035,825
Administrative	2,117,037
USDA Oversight	321,253
USDA Compliance Audit	<u>42,603</u>

Total Other Expenses	<u>12,516,718</u>
----------------------	-------------------

Total Expenses	<u>107,628,598</u>
----------------	--------------------

Excess of Revenues over Expenses	1,385,092
----------------------------------	-----------

Net Assets - Beginning	<u>15,303,159</u>
------------------------	-------------------

Net Assets - Ending	<u>\$ 16,688,251</u>
---------------------	----------------------

**National Fluid Milk Processor Promotion Board**

**Statement of Cash Flows**

---

**For the year ended December 31, 2001**

---

**Cash Flows from Operating Activities:**

Excess of Revenues over Expenses	\$ 1,385,092
Changes in Assets and Liabilities:	
Decrease in Assessments Receivable	3,444,989
Decrease in Interest Receivable	91,321
Increase in Other Receivables	(725,554)
Increase in Prepaid Charges	(7,878)
Increase in Accounts Payable	3,633,726
Total Adjustments	<u>6,436,604</u>

<b>Net Cash Provided by Operating Activities</b>	7,821,696
--	-----------

**Cash Flows from Investing Activities:**

Proceeds from Investments Maturing in Current Year	<u>1,499,898</u>
--	------------------

<b>Net Increase in Cash and Cash Equivalents</b>	9,321,594
--	-----------

Cash and Cash Equivalents - Beginning	<u>11,256,505</u>
---------------------------------------	-------------------

<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 20,578,099</u>
---	----------------------

# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

---

December 31, 2001

---

### **Note 1: Organization:**

The National Fluid Milk Processor Promotion Board (the Board) was established pursuant to the authority of the Fluid Milk Promotion Act (the Act) of 1990, Subtitle H of the Title XIX of the Food, Agriculture, Conservation and Trade Act of 1990. The purpose of the Board is to administer the provisions of the Fluid Milk Promotion Order (the Order) established pursuant to the Act which establishes an orderly procedure for the development and the financing through an assessment and coordinated program of advertising, promotion, and education for fluid milk products. The Order has an expiration date of December 31, 2002.

The Act requires that a referendum be conducted among processors to determine if a majority favored implementing the fluid milk program. In the October 1993 initial referendum, the majority of processors voted to approve the implementation of the fluid milk program. A continuation referendum was held in February-March 1996. Of the processors voting in that referendum, the majority favored continuation of the fluid milk program. In November 1998, another continuation referendum was held at the request of the Board and processors voted to continue the fluid milk program as established by the Order. The Act and Order state that the United States Department of Agriculture (USDA) will hold future referenda upon the request of the Board, processors representing 10 percent or more of the volume of fluid milk products marketed by those processors voting in the last referendum, or when called by the U.S. Secretary of Agriculture.

For financial reporting purposes, the Board is considered a quasi-governmental agency of the U.S. government. As such, it is exempt from income taxes under the Internal Revenue Code. The USDA and its affiliated agencies operate in an oversight capacity of the Board.

### **Note 2: Summary of Significant Accounting Policies:**

The financial statements of the Board are prepared in conformity with accounting principles generally accepted in the United States of America. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.



# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

---

December 31, 2001

---

### Note 2: Summary of Significant Accounting Policies: (Continued)

Assessments - Assessments are generated from those processors marketing more than 500,000 pounds of fluid milk per month by a 20-cent per hundred weight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the 48 contiguous United States and the District of Columbia. Assessment revenue is recognized in the month in which the fluid milk product is processed.

Late payment charges are assessed, as provided under the Act, to processors who do not remit monthly assessments within 30 days following the month of assessment.

California Grant - In accordance with the Act, the Board is required to provide a grant to a third party equal to 80% of the assessments collected from Regions 14 and 15 to implement a fluid milk promotion campaign. Disbursements under these provisions are recorded as "California Grant" in the accompanying financial statements.

Cash Equivalents - For purposes of the statement of cash flows, the Board considers investments with an original maturity of three months or less to be cash equivalents.

Use of Estimates - The Board has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Advertising - In accordance with its mission, the Board has approved the development of direct and nondirect response advertising and promotional activities. All costs related to these activities are charged to expense as incurred.

# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

December 31, 2001

### **Note 3: Cash and Cash Equivalents:**

At December 31, 2001, the bank balance of the Board's cash deposits was entirely covered by federal depository insurance or was covered by collateral held by the Board's agent in the Board's name.

	<u>Carrying Value</u>
Cash Deposits	\$ 3,075,385
Repurchase Agreements	5,978,430
Investments	<u>11,524,284</u>
	<u>\$20,578,099</u>

At December 31, 2001, the repurchase agreements were secured as to principal plus accrued interest by U.S. government securities held in the respective banks' safekeeping account, in the Board's name, with the Federal Reserve Bank.

The Board is required to follow the Agricultural Marketing Service (AMS) investment policy. Accordingly, the Board is authorized to invest in securities consisting of obligations issued or fully insured or guaranteed by the U.S. or any U.S. government agency, including obligations of government-sponsored corporations, and must mature within one year or less from the date of purchase. At December 31, 2001, investments consist entirely of U.S. government agency obligations. Investments are carried at cost, which approximates fair value. The Board's investments are held by the counterparty's trust department or agent in the Board's name.

At December 31, 2001, investments consisted of the following:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Carrying Amount</u>
U.S. Securities:				
FNMA Discount Note	12/04/01	01/10/02	1.84%	\$ 2,006,199
FHLMC Discount Note	11/21/01	01/24/02	1.97	1,511,714
FHLMC Discount Note	12/27/01	02/22/02	1.77	1,999,413
FHLMC Discount Note	12/19/01	02/28/02	1.74	1,019,509
FNMA Discount Note	12/19/01	03/14/02	1.74	2,987,746
FHLMC Discount Note	12/27/01	03/22/02	1.76	<u>1,999,703</u>
				<u>\$11,524,284</u>

# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

---

December 31, 2001

---

**Note 3: Cash and Cash Equivalents: (Continued)**

At December 31, 2001, the Board was owed accrued interest of \$9,180.

Cash and cash equivalents includes \$4,500,000 of Board designated cash reserve.

**Note 4: Compliance Matters:**

In accordance with the Act and the Order, effective one year after the date of the establishment of the Board, the Board shall not spend in excess of 5% of the assessments collected for the administration of the Board. For the year ended December 31, 2001, the Board did not exceed this limitation.

**Note 5: Commitments:**

The Board entered into an agreement with the International Dairy Foods Association (IDFA) to administer the fluid milk program. IDFA contracted with Bozell Worldwide, Inc., Weber Schandwick Worldwide (formerly Bozell Sawyer Miller Group), and Marketing Drive to develop the Board's advertising, consumer education, and promotion programs, respectively.

Additionally, the Board entered into an agreement during fiscal year 2000 with Walt Disney World Hospitality & Recreation Corporation (WDWHRC), whereby the Board will pay WDWHRC \$1,800,000 each year for the next five years in exchange for the sponsorship and certain promotional rights at the Sports Complex in order to cooperatively develop programs to promote fluid milk products at Walt Disney World Resort.

**Note 6: Transactions with the United States Department of Agriculture:**

Under the provisions of the Act and the Order, the Board is required to pay the United States Department of Agriculture certain fees for oversight and evaluation costs.

# National Fluid Milk Processor Promotion Board

## Notes to Financial Statements

---

December 31, 2001

---

### **Note 7: Operating Lease:**

The Company incurred \$114,000 of rental expense during the year 2001, under a sublease agreement that has an automatic renewal agreement that was extended through December 31, 2002.

### **Note 8: Related Party:**

Accounting services for the Board are performed by Rubin, Kasnett & Associates, P.C. (RK&A); the cost of these services was \$225,000 during 2001. A principal of RK&A serves as the Chief Financial Officer of the Board and received compensation of \$140,000 for services performed.

### **Note 9: Litigation:**

The Board has been named as a defendant in two legal actions filed with agencies of the Federal Government. If these actions were to be found in the favor of the complainants, the Board could be exposed to civil penalties and financial losses.

The Board expects to vigorously defend its actions and believes it will prevail in each matter. No provision for losses has been made in these statements.

On June 25, 2001, the United States Supreme Court issued an opinion in the case United States v. United Foods, Inc., No. 00-276 (U.S. June 25, 2001) holding that the generic advertising component of the Mushroom Promotion Act (as established by the USDA) violated the First Amendment rights of the plaintiff. As a result, members of the mushroom industry are no longer required to pay assessments that fund advertising and promotion unless they so elect.

While the Board operates under a similar Act created by the USDA, it believes operating conditions in the milk industry differ from those in the mushroom industry, that the program is constitutional and the Board is not likely to be adversely impacted. Further, the Board believes the USDA will vigorously defend the program.



**SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.**

Independent Auditor's Report on Supplementary Information

**To the Board of Directors  
National Fluid Milk Processor  
Promotion Board  
Washington, D.C.**

Our report on our audit of the basic financial statements of the National Fluid Milk Processor Promotion Board for 2001 appears on page 1. We conducted our audit for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 12 to 15 for the year ended December 31, 2001 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Snyder, Cohn, Collyer, Hamilton & Associates, P.C.*

March 8, 2002

Certified Public Accountants and Business Advisors

4520 East West Highway, Suite 520, Bethesda, MD 20814-3338  
Phone: 301-652-6700 Fax: 301-986-1028

Web: cpahelp.com E-Mail: advice@cpahelp.com

# National Fluid Milk Processor Promotion Board

## Schedule of Revenues and Expenses Actual Compared to Budget (Budget Basis)

**For the year ended December 31, 2001**

	Unexpended/ Amended Budget	Current Year Actual	Actual Over (Under) Budget
<b>Revenues:</b>			
Assessments	\$ 110,000,000	\$ 107,693,467	\$ (2,306,533)
California Cut-In Fees	800,000	672,201	(127,799)
Late Payment Charges	-	240,816	240,816
Interest Income	-	403,923	403,923
Other	-	3,283	3,283
Carryover - Prior Years	<u>6,532,138</u>	<u>-</u>	<u>(6,532,138)</u>
<b>Total Revenues</b>	<u>117,332,138</u>	<u>109,013,690</u>	<u>(8,318,448)</u>
<b>Expenses:</b>			
Program Expenses:			
Program - Current Year	101,310,394	94,288,820	(7,021,574)
Program - Prior Years	<u>823,060</u>	<u>823,060</u>	<u>-</u>
<b>Total Program Expenses</b>	<u>102,133,454</u>	<u>95,111,880</u>	<u>(7,021,574)</u>
Other Expenses:			
California Grant	10,300,000	10,035,825	(264,175)
Administrative	2,117,037	2,117,037	-
USDA Oversight	350,000	321,253	(28,747)
USDA Compliance Audit - Prior Years	42,603	42,603	-
Unallocated	254,707	-	(254,707)
Unallocated Reserve	<u>3,000,000</u>	<u>-</u>	<u>(3,000,000)</u>
<b>Total Other Expenses</b>	<u>16,064,347</u>	<u>12,516,718</u>	<u>(3,547,629)</u>
Less Encumbrances - Prior Years	<u>(865,663)</u>	<u>-</u>	<u>865,663</u>
<b>Total Expenses</b>	<u>117,332,138</u>	<u>107,628,598</u>	<u>(9,703,540)</u>
<b>Excess (Deficit) of Revenues Over Expenses</b>	<u>\$ -</u>	<u>\$ 1,385,092</u>	<u>\$ (1,385,092)</u>

# National Fluid Milk Processor Promotion Board

## Schedule of Program Expenses Actual Compared to Budget (Budget Basis)

For the year ended December 31, 2001

	<u>Current Year Amended Budget</u>	<u>Expended Current Year Actual</u>	<u>Actual Over (Under) Budget</u>	<u>Prior Year Unexpended Budget</u>	<u>Expended Prior Year Actual</u>	<u>Actual Over (Under) Budget</u>	<u>Total Program Activity</u>
<b>Expenses - 2001 Budget</b>							
Media	\$ 74,833,700	\$ 73,945,305	\$ (888,395)	\$ 1,423,820	\$ (2,454)	\$ (1,426,274)	\$ 73,942,851
Promotions	13,869,300	10,170,587	(3,698,713)	1,962,725	(20,503)	(1,983,228)	10,150,084
Public Relations	9,548,650	9,226,430	(322,220)	871,896	355,267	(516,629)	9,581,697
Strategic Thinking	776,000	207,977	(568,023)	467,979	295,178	(172,801)	503,155
Research	1,546,500	417,374	(1,129,126)	167,098	20,169	(146,929)	437,543
Medical Advisory Panel	316,244	194,499	(121,745)	221,940	5,628	(216,312)	200,127
American Heart Association	-	-	-	812,475	120,000	(692,475)	120,000
Medical Research	210,000	107,374	(102,626)	(4,862)	-	4,862	107,374
Program Measurement	<u>210,000</u>	<u>19,274</u>	<u>(190,726)</u>	<u>60,586</u>	<u>49,775</u>	<u>(10,811)</u>	<u>69,049</u>
<b>Total Program Expenses</b>	<u>\$ 101,310,394</u>	<u>\$ 94,288,820</u>	<u>\$ (7,021,574)</u>	<u>\$ 5,983,657</u>	<u>\$ 823,060</u>	<u>\$ (5,160,597)</u>	<u>\$ 95,111,880</u>

# National Fluid Milk Processor Promotion Board

## Schedule of Administrative Expenses Actual Compared to Budget (Budget Basis)

**For the year ended December 31, 2001**

	Current Year Amended Budget	Current Year Actual	Actual Over (Under) Budget
<b>Management Contract</b>	\$ 573,856	\$ 573,856	\$ -
<b>Board Meeting Expenses</b>	264,274	275,317	11,043
<b>Staff Salaries and Benefits:</b>			
Staff Salaries and Compensation	355,000	359,003	4,003
Staff Retirement Benefit	35,500	31,688	(3,812)
Payroll Taxes	12,000	10,608	(1,392)
Health Insurance	4,000	3,474	(526)
Life Insurance	1,050	823	(227)
Disability Insurance	1,260	1,399	139
Workers Compensation	675	303	(372)
<b>Total Salaries and Benefits</b>	<u>409,485</u>	<u>407,298</u>	<u>(2,187)</u>
<b>Finance and Administration:</b>			
Contract Staff	140,000	139,989	(11)
Financial Services	225,000	224,742	(258)
<b>Total Finance and Administration</b>	<u>365,000</u>	<u>364,731</u>	<u>(269)</u>
<b>Other Operating Expenses:</b>			
Legal	183,471	183,471	-
Audits	50,000	67,057	17,057
Office Facilities	96,500	96,000	(500)
Support and Maintenance	18,000	18,000	-
Staff Travel	75,000	68,470	(6,530)
Telephone	5,000	3,127	(1,873)
Insurance	30,451	30,451	-
Postage and Delivery	13,000	28,814	15,814
USDA Processor Compliance	30,000	-	(30,000)
Miscellaneous	3,000	445	(2,555)
<b>Total Other Operating Expenses</b>	<u>504,422</u>	<u>495,835</u>	<u>(8,587)</u>
<b>Total Administrative Expenses</b>	<u>\$ 2,117,037</u>	<u>\$ 2,117,037</u>	<u>\$ -</u>



**National Fluid Milk Processor Promotion Board**

**Schedule of Cash Receipts and Disbursements**

---

**For the year ended December 31, 2001**

---

**Cash Receipts from Operations:**

Assessments	\$ 110,412,902
California Cut-In Fees	672,201
Late Payment Charges	240,816
Interest Income	495,244
Other	<u>3,283</u>
Total Revenues	111,824,446

<b>Cash Disbursements for Operations</b>	<u>104,002,750</u>
--	--------------------

<b>Excess of Operating Receipts over Disbursements</b>	7,821,696
--	-----------

**Other Sources and Uses of Cash:**

Proceeds from Investments Maturing in Current Year	<u>1,499,898</u>
--	------------------

<b>Excess of Receipts and Other Sources Over Disbursements and Other Uses of Cash</b>	9,321,594
---	-----------

Cash and Cash Equivalents - Beginning	<u>11,256,505</u>
---------------------------------------	-------------------

<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 20,578,099</u>
---	----------------------



**SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.**

Independent Auditor's Report on Compliance  
and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements  
Performed in Accordance with Standards of the  
*Agricultural Marketing Service Division*  
*of the United States Department of Agriculture*

**To the Board of Directors  
National Fluid Milk Processor  
Promotion Board  
Washington, D.C.**

We have audited the financial statements of the National Fluid Milk Processor Promotion Board as of and for the year ended December 31, 2001, and have issued our report thereon dated March 8, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in the *Agricultural Marketing Service Division* guidelines for financial audits, issued by the *Agricultural Marketing Service Division of the United States Department of Agriculture*.

**Compliance**

As part of obtaining reasonable assurance about whether the National Fluid Milk Processor Promotion Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the National Fluid Milk Processor Promotion Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



To the Board of Directors  
National Fluid Milk Processor  
Promotion Board  
Page two

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Services and Resources Division of the Agricultural Marketing Service Division of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

*Snyder, Cohn, Collyer, Hamilton & Associates, P.C.*

March 8, 2002



**SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.**

**To the Board of Directors  
National Fluid Milk Processor  
Promotion Board  
Washington, D.C.**

We have audited, in accordance with generally accepted auditing standards, the Balance Sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2001, and the related Statements of Revenues, Expenses, and Changes in Net Assets and Cash Flows for the year then ended, and have issued our report thereon dated March 8, 2002. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention, insofar as it relates to accounting matters, that causes us to believe that the National Fluid Milk Processor Promotion Board:

- Failed to comply with laws and regulations applicable to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1160.212, of the Fluid Milk Promotion Order, relating to the use of assessment funds for the purpose of influencing governmental policy or action;
- Expended assessment funds for purposes other than those authorized by the Fluid Milk Promotion Act and the Fluid Milk Promotion Order.
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by the National Fluid Milk Processor Promotion Board's approved Budget and Marketing Plan;
- Did not adhere to the original or amended Budget and Marketing Plan for the year ended December 31, 2001;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1999H, paragraph (g) of the Fluid Milk Promotion Order, relating to the limitations on the types of investments which may be purchased by the National Fluid Milk Processor Promotion Board and the insurance or collateral that must be obtained for all National Fluid Milk Processor Promotion Board deposits and investments;



To the Board of Directors  
National Fluid Milk Processor  
Promotion Board  
Page two

- Failed to comply with internal controls;
- Failed to comply with disclosure requirements for lease commitments; or
- Failed to comply with the By-laws of the National Fluid Milk Processor Promotion Board or any other policy of the National Fluid Milk Processor Promotion Board, specifically as they relate to all financial matters, including time and attendance, and travel.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Services and Resources Division of the Agricultural Marketing Service Division of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

*Snyder, Cohn, Collyer, Hamilton & Associates, P.C.*

March 8, 2002

## APPENDIX E-1

### NATIONAL DAIRY BOARD AND DAIRY MANAGEMENT INC. CONTRACTS REVIEWED BY USDA, 2001

#### Contractor

#### Initiatives

#### **ADVERTISING AND MARKETING**

Affina Corporation	"Real Seal" Certification Program
American School Food Service Association	School Foodservice Publications
	School Milk Pilot Activities
Bozell Group, LLC	Advertising Services
	Cheese Foodservice Activities
Broadcast Traffic and Residuals, Inc.	Fluid Milk and Cheese Broadcast Materials and Talent Activities
DDB Worldwide Communications Group	Cheese Creative Advertising / Media Planning Services
Information Television Network	Discovery Health Network Series
Inland Printing Company, Inc.	Milk Merchandise Material Production and Distribution
	Warehousing and Production of Creative Materials
	DMI E-Commerce Website Activities
	DMI Materials Website Development and Maintenance
	DMI Communications Toolbox Production and Collation
J. Brown and Associates	DMI Cheese Co-Marketing Program
Kubin Nicholson	Outdoor Paper Production and Warehousing Activities
MS Data Step	"Real Seal" Internet Site Updates
Marketing Drive Worldwide	School Foodservice and Cafeteria Promotional Activities
Media Management Services	School Marketing Strategic Planning
Olson Communications	School Foodservice Merchandising Materials
	Mealtime Sampler Activities
School Food Service Foundation	Foodservice Program Activities

#### **PUBLIC RELATIONS AND NUTRITION EDUCATION**

Association Partners Plus	Communications and Education Program
BSMG Marketing Communications	Public Relations for Milk, Dairy Image, and Nutrition Education
	Creative/Coordination Activities for Odyssey of the Mind Exhibit
Connecticut Marketing Associates	Category Management Newsletter Activities
Creswell, Munsell, Fultz, and Zirbel	DMI Annual Report Video, DMI Newsletter Project, and
	Industry Relations Activities
	Dairy Confidence Activities
Edelman Public Relations Worldwide	<a href="http://www.dairynutrition.com">www.dairynutrition.com</a> Website Development and Maintenance
	Dairy Spokesperson Network Activities
	NCI/DMI Cheese Nutrition Program Activities
	Cheese Television Ad Launch Activity
	Cheese and Butter Public Relations Activities
	Cheese Product Publicity Activities
	Butter Communications Program Activities

**NATIONAL DAIRY BOARD AND DAIRY MANAGEMENT INC.  
CONTRACTS REVIEWED BY USDA, 2001 (CONTINUED)**

**Contractor**

**Initiatives**

**PUBLIC RELATIONS AND NUTRITION EDUCATION (Cont'd.)**

Flair Communications Agency	Destination Imagination Program Development
	Fluid Milk Sales Promotion Activities
Fleishman Hillard	Reputation Management Program
I-Site Web Design	Website <a href="http://www.familyfoodzone.com">www.familyfoodzone.com</a> Maintenance
Jerry Dryer Group	Dairy Issues Management Activities
Media Management Services	Pyramid Café/Pyramid Explorations Newsletter
OM Association/Destination Imagination, Inc.	Destination Imagination Sponsorship
Tucker-Knapp	DMI Customer Service Technical Liaison
	Industry Relations Planning Activities
	Technology Transfer Marketing Program Activities
	Extraordinary Dairy Marketing
	Nonfat Milk/Whey Program Activities
	Prepared Foods New Products Conference
Weber Shandwick Worldwide	Reputation and Issues Management
	Crisis Preparedness
	Animal Health Message Testing
Willard Bishop	Expanding the Reach of Dairy Educational Series

**EXPORT**

American-Mexican Marketing	Mexican Market Representation and Program Activities
	Domino's Pizza Cheese Promotion
Arab Marketing Finance	Middle East Market Representation and Program Activities
Contacts International Consulting, Ltd.	South American Market Representation and Program Activities
Eastern Strategic Consulting Ltd.	China/Taiwan Ice Cream and Cheese Market Analysis
Functional Ingredients Research, Inc.	Korean Whey Nutri-Marketing Conference & Trade Mission
Global Trade Information Services	Purchase of <i>World Trade Atlas</i>
International Dairy Foods Association	Update of USDEC Export Manuals
International Trade Services	Update of USDEC's International Reference Manuals
IntNet	Korean Market Representation and Program Activities
J.J. Keller and Associates	Update of USDEC Export Manual
	Addition of CODEX Milk Standards to Export Manual CD-ROM
Jerry Dryer Group	USDEC International Communications Activities
LFRA, Ltd	U.S. Cream Cheese and Mozzarella Cheese Comparison with Similar, Leading Cheese Products from Different Origins
Landell Mills	Canadian Whey/Lactose Market Development Study
Levitt Communication	USDEC Membership Services

**NATIONAL DAIRY BOARD AND DAIRY MANAGEMENT INC.  
CONTRACTS REVIEWED BY USDA, 2001 (CONTINUED)**

<b><u>Contractor</u></b>	<b><u>Initiatives</u></b>
<b>EXPORT (Cont'd.)</b>	
Market Directions	Dairy Farmer Awareness and Attitude Study
Mistral Group, Ltd.	European Market Representation and Program Activities
National Milk Producers Federation	Global Research Activities
	Farm to Consumer Program Activities
PR Consultants	Chinese Market Representation and Program Activities
Pacrim Associates	Southeast Asian Market Representation and Program Activities
Pasin Group	Australia and New Zealand Trade Mission
Patricia R. Fuchs & Associates	USDEC Annual Report Production
Results Direct	USDEC Website Redesign (Phase II)
Promar International	Updated Market Study for Dairy Products in Mexico
Soluciones Cualitativas	Mexican Consumer Awareness and Image Study of Leading Domestic and Foreign Cheese Brands
Stanton, Emms, & Sia	Southeast Asian Cheese Market Study
Stratton Publishing & Marketing, Inc.	Website Consulting Services
Uniflex Marketing	Japanese Market Representation and Program Activities
	Japanese Dry Ingredients Program

**MARKET AND ECONOMIC RESEARCH**

Beverage Marketing Corporation of NY	Milk Availability Research Study/School Milk Pilot Program
Burelle's Newsclip Analysis Service	Review of the Effectiveness of Generic Milk Programs
CFE Solutions, Inc.	Cheese Media Monitoring and Analysis
CY Research, Inc.	School Milk Pilot Program
D.S. Howard and Associates	Milk and Cheese Creative Testing
Doyle Research Associates	Assessing Viability of Various Milk Sales Promotion Concepts
Erick and Lavidge	Ad Concept Testing
	Cheese Advertising Tracking Activities
	Milk Advertising Tracking Activity
	Milk Claims Assessment Research
Information Resources, Inc.	Milk and Cheese Category Volume Reports
Kaplan Levinson Associates	Qualitative Research for Kid/Mom Strategic Exploration
MSW	Milk and Cheese Advertising Copy Testing
Market Decisions	In-Store Chocolate Milk Promotion Audit
Market Facts	Attitudes and Usage Trends Study



**NATIONAL DAIRY BOARD AND DAIRY MANAGEMENT INC.  
CONTRACTS REVIEWED BY USDA, 2001 (CONTINUED)**

<u>Contractor</u>	<u>Initiatives</u>
<b>MARKET AND ECONOMIC RESEARCH (Cont'd.)</b>	
Marketecture	Attitudes and Usage Trends Study Analysis Survey of "Real Seal" Users Tracking Activities of Public Opinion toward Dairy Products and the Dairy Industry Milk Promotion Concept Exploration Qualitative Research for Reputation Management
Meyers Research Center	Evaluation of Fame Game Milk Promotion
NFO Research	Purchase and Analysis of Marketing Data
NPD Group	Cheese Consumption Tracking Activity and CREST Foodservice Data Eating Patterns Data Report Consumer Food Safety Survey Milk Innovation Research
Prime Consulting Group	Milk and Cheese Advertising Copy Testing
RSC - The Quality Measurement Co.	Testing and Evaluation for Milk in Schools
Roper ASW	School Milk Pilot Consulting Phase II Milk Cooler Research Multi-Client Dairy Industry Study Marketing Research Activities
Shuster Laboratories	Qualitative Marketing Research Assignments
Sparks Companies, Inc.	Qualitative Marketing Research Assignments
Spectra Marketing Systems	Qualitative Research for Chocolate Milk Program Analysis
Strategic Marketing	Research Testing Activities
Teri Gacek Associates	Dairy Producer Survey
Widener-Burrows and Associates	Pyramid Nutrition Education Program Research
Wirthlin Worldwide	

## APPENDIX E-2

### NATIONAL FLUID MILK PROCESSOR PROMOTION BOARD AND INTERNATIONAL DAIRY FOODS ASSOCIATION CONTRACTS REVIEWED BY USDA, 2001

#### Contract Parties

Susan Baker, M.D.  
 Susan Barr, Ph.D.  
 Sarah Berga, M.D.  
 Robert P. Heaney, M.D. - Creighton University  
     Medical School  
 Beverage Marketing Corporation of New York  
 Dairy & Food Communications, Inc.  
 Diagnostic Research, Inc.  
 Flair Communications  
 FAF Marketing  
 Information Resources, Inc. (IRI)  
 Inland Printing Company  
 Meyers Research Center  
 Prime Consulting Group, Inc.  
 Roslow Research Group  
 SciLucent LLC  
  
 Publicidad Siboney Corporation (Siboney USA)  
  
 Smith Food and Drug Stores, Inc.  
 Snyder, Cohn, Collyer, Hamilton & Associates, P.C.  
 Quality Chekd Dairies, Inc. & Bravo! Foods, Inc.  
 Uneeda Doll Co.  
 Widner Burrows

#### Project Title

Medical Advisory Board Member Services  
 Medical Advisory Board Member Services  
 Medical Advisory Board Member Services  
 Medical Advisory Board Member Services  
  
 Market Research Services  
 Consulting Agreement  
 Evaluation of Chocolate Milk Television Advertising  
 Promotional Marketing Services  
 Sports Marketing Consultant Services  
 Promotion Measurement Services  
 Milk Reporting Database Services  
 Promotion Evaluation Services  
 Market Research Agreement  
 Hispanic Market Research  
 Scientific Research Services  
 Evaluation of Fluid Milk Health Claims  
 Hispanic Market Research  
 Hispanic Market Program Activities  
 License Agreement  
 Audit Services  
 License Agreement  
 License Agreement  
 Testing of Chocolate Milk Television Advertisements

## APPENDIX F-1

### NUTRITION AND HEALTH RESEARCH INSTITUTES AND DAIRY FOODS RESEARCH CENTERS 2001

#### Nutrition and Health Research Institutes

##### **Diet, Genetics, and Heart Disease Institute**

Louisiana State University  
Pennington Biomedical Research Center

##### **Genetics and Nutrition Institute**

Children's Hospital, Oakland Research Institute

#### Research Focus

Relationship of Low-Fat Diets to Heart Disease

Relationship of Genetics, Dietary Fat (Especially Dairy Fat)  
and Heart Disease

#### Dairy Foods Research Centers

##### **California**

California Polytechnic State University  
University of California at Davis

##### **Minnesota/South Dakota**

University of Minnesota  
South Dakota State University

##### **Northeast**

Cornell University  
University of Vermont

##### **Southeast**

North Carolina State University  
Mississippi State University

##### **Western**

Utah State University  
Oregon State University  
Brigham Young University

##### **Wisconsin**

University of Wisconsin at Madison

#### Research Objectives

Milk Component Characterization, Modification, and  
Utilization  
Dairy Products and Process Technologies: Applications  
Dairy Food Safety

Genetics of Dairy Starter Cultures  
Dairy Food Quality and Safety  
Utilization of Dairy Components as Ingredients

Dairy Product Quality  
Functional Properties of Dairy Products and Milk  
Components  
Dairy Product Safety  
Dairy Product Processing, Engineering, and Packaging  
New Product Development

Milk Component Functionality  
Microbial and Genetic Technologies  
Biological and Thermal Processing Technologies  
Applications to Innovative Products and Processes

Research of How Dairy Proteins Function and Interact

Practical Research of Dairy Proteins to Design Dairy Protein  
Systems for Their Use in Food Manufacture  
Function of Proteins and Enzymes in Low-Fat Cheeses

Milkfat Management and Utilization  
Nonfat Solids Utilization  
Cheese Technology  
Quality and Safety

## APPENDIX F-2

### DAIRY FOODS COMPETITIVE RESEARCH ACTIVITIES DURING 2001

<u>Principal Investigator &amp; Institution</u>	<u>Project Title</u>
<b>William R. Aimutis, Ph.D.</b> Land O' Lakes	Physical and Biochemical Changes Associated with Shredded Cheese During Ripening [continued in 2001]
<b>Polly Dinsmore-Courtney, Ph.D.</b> Ohio State Univ. Research Foundation	Control of Cheddar Cheese Ripening Via High Pressure Treatment [completed in 2001]
<b>Susan E. Duncan, Ph.D.</b> Virginia Polytechnic Institute	Controlled Release of Antioxidants by Polymer Films into Milk [continued in 2001]
<b>Robert W. Hutkins, Ph.D.</b> Virginia Polytechnic Institute	Utilization of Fructooligosaccharides by Probiotic Bacteria [began in 2001]
<b>Michael E. Mangino, Ph.D.</b> Ohio State University	Partial Denaturation to Improve Heat Stability of Whey Protein [completed in 2001]
<b>Joseph E. Marcy, Ph.D.</b> Virginia Polytechnic Institute	Improved Uses of Natamycin to Prevent Mold Spoilage of Cheese [continued in 2001]
	Active Packaging to Improve the Quality of UHT Milk [continued in 2001]
<b>Teresa Marshall, Ph.D.</b> University of Iowa, College of Dentistry	Identification of the Roles that Dairy Products, Particularly Fluid Milk, Play in Dental Cavities and Fluorosis of Young Children [began in 2001]
<b>David J. McClements, Ph.D.</b> University of Massachusetts	Application of Whey Proteins and Emulsifiers in Foods [completed in 2001]
<b>John U. McGregor, Ph.D.</b> Clemson University	Fluid Dairy Products as Ingredients in Freshly Prepared Coffee House Beverages [continued in 2001]
	Enhancing the Shelf Life of Whole Milk Powder [continued in 2001]
<b>Ronald L. Richter, Ph.D.</b> Texas A&M University System	Effects of Formulation and Processing on the Emulsion Stability and Sedimentation of Retort Sterilized Dairy-Based Nutritional Products [completed in 2001]
<b>Scott Rankin, Ph.D.</b> University of Wisconsin at Madison	Biochemistry of Full and Reduced Fat Cheddar Shred Ripening [continued in 2001]

## APPENDIX F-2

### DAIRY FOODS COMPETITIVE RESEARCH ACTIVITIES DURING 2001 (CONTINUED)

<u>Principal Investigator &amp; Institution</u>	<u>Project Title</u>
<b>Judith Stable, Ph.D.</b> International Dairy Foods Association	Study of Thermal Inactivation of Mycobacterium Paratuberculosis [completed in 2001]
<b>Debra Sullivan, Ph.D.</b> University of Kansas Medical Center	Effects of Increased Dairy Product Consumption on Blood Pressure in a Multi-Ethnic Population of Elementary School Children [began in 2001]
<b>Richard L. Stroshine, Ph.D.</b> Purdue Research Foundation	Low Field Proton Magnetic Resonance for On-Line Monitoring of the Moisture Content of Processed Cheese and Other Dairy Products [continued in 2001]
<b>Margaret Swearingen, Ph.D.</b> Land O' Lakes	Calcium Lactate Levels and Incidence of Crystals on Cheddar Cheese [continued in 2001]

## APPENDIX F-3

### NUTRITION COMPETITIVE RESEARCH ACTIVITIES DURING 2001

<u>Principal Investigator &amp; Institution</u>	<u>Project Title</u>
<b>Dale E. Bauman, Ph.D.</b> Cornell University	Interrelationships Between Trans Fatty Acids and Conjugated Linoleic Acids and Their Role in Lipid Metabolism [completed in 2001]  Production of CLA-Enriched Butter for Animal Studies of Mammary Cancer [began in 2001]
<b>Terri D. Boyston, Ph.D.</b> Iowa State University	Development of A Yogurt with Increased CLA Content Produced with Probiotic Bacteria [continued in 2001]
<b>Leann L. Birch, Ph.D.</b> Pennsylvania State University	Parental Influence on Girls' Calcium Intake and Bone Mineral Density [continued in 2001]
<b>Carol J. Boushey, Ph.D.</b> Purdue Research Foundation	Qualitative Assessment of Lactose Consumption and Symptoms by Meta-Analysis [completed in 2001]
<b>Gary M. Chan, M.D.</b> Children's Medical Center Foundation	The Effects of Dairy Foods on Adolescent Pregnant Mothers and Their Newborn [began in 2001]  Effects of Milk and Non-Milk Beverages on Young Children's Nutrition and Taste Preferences [continued in 2001]
<b>Adam Drewnowski, Ph.D.</b> University of Washington	Diet Quality Indices and the Use of Dairy Products by French Adults: The SUVIMAX Study [began in 2001]
<b>Penny Kris-Eatherton, Ph.D.</b> Pennsylvania State University	Fat Oxidation in Children and Adults [began in 2001]
<b>Michael Falk, Ph.D.</b> Life Sciences Research Office	Evidence for a Health Claim: Dairy Foods/Calcium and Colorectal Cancer [completed in 2001]
<b>Rafael Jiminez-Florez, Ph.D.</b> California Polytechnic State University Foundation	Isolation of Milk Membrane Components from Buttermilk and their Impact on Health [began in 2001]
<b>Michael I. Goran, Ph.D.</b> University of Alabama, Birmingham	Influence of Dairy Intake and Dietary Fat on Body Composition, Fat Distribution, and Health in Caucasian and African-American Children [completed in 2001]
<b>Mikko Griinari, Ph.D.</b> University of Helsinki	Milk Fat Component, Trans-11 C18:1 (Vaccenic Acid), as a Precursor of Conjugated Linoleic Acid (CLA) in Humans [completed in 2001]

## APPENDIX F-3

### NUTRITION COMPETITIVE RESEARCH ACTIVITIES DURING 2001 (CONTINUED)

<u>Principal Investigator &amp; Institution</u>	<u>Project Title</u>
<b>Peter R. Holt, M.D.</b> St. Luke's-Roosevelt Institute for Health Sciences	Dairy Product Inhibition of Colonic Neoplasms [completed in 2001]
<b>Clement Ip, Ph.D.</b> Roswell Park Cancer Institute	Mammary Cancer Prevention by Milkfat-CLA [completed in 2001]  Mammary Cancer Prevention by CLA- Butter [began in 2001]
<b>Rachel K. Johnson, Ph.D.</b> University of Vermont	The Effect of Flavored Milk on the Quality of Children's Diets [continued in 2001]
<b>Susan L. Johnson, Ph.D.</b> University of Colorado Health Sciences Center	Normal Development of Children's Energy Intake Regulation and Weight Status: Changes in Individual Responsiveness to Dietary Carbohydrate and Fat [completed in 2001]
<b>William J. Kramer, Ph.D.</b> Ball State University	Effects of Increasing Consumption of Milk Products and Exercise Training Programs on Body Composition, Bone Density, and Muscular Performance in Teenage Boys and Girls [completed in 2001]
<b>Martin Lipkin, M.D.</b> Strang Cancer Research Laboratory at the Rockefeller University	Inhibition of Colon Cancer by Dairy Foods [completed in 2001]
<b>Velmir Matkovic, Ph.D.</b> Ohio State Univ. Research Foundation	Traits in Body Composition in Young Females Consuming Dairy Products vs. Calcium Supplements [completed in 2001]  pQCT of the Forearm in Children with Fractures [continued in 2001]
<b>Jill A. Metz, Ph.D.</b> Oregon Health Sciences University	Low-Fat Dairy Products Reduce Antihypertensive Drug Therapy [completed in 2001]
<b>Lynn L. Moore, Ph.D.</b> Boston University School of Medicine	Effects of Milk and Milk Products on Blood Pressure and Bone Density in Children [completed in 2001]
<b>David Murdy, M.D.</b> betterMD.net	Randomized Controlled Trial of Novel Milk Based Weight Loss in Well Supervised Outpatients [began in 2001]
<b>Aviva Must, Ph.D.</b> Tufts University	Influence of Milk and Milk Products Consumption on Incident Obesity and Changes in Children, Adolescents, and Young Adults [continued in 2001]
<b>Mary Frances Picciano, Ph.D.</b> Pennsylvania State University	Food Group Analyses for Development of Dietary Guidance during Early Childhood [completed in 2001]
<b>Janet Rankin, Ph.D.</b> Virginia Polytechnic Institute	Effect of Milk Consumption on Acute Muscle Protein Synthesis and Degradation after Resistance Exercise and on Chronic Muscle Hypertrophy [completed in 2001]

## APPENDIX F-3

### NUTRITION COMPETITIVE RESEARCH ACTIVITIES DURING 2001 (CONTINUED)

<u>Principal Investigator &amp; Institution</u>	<u>Project Title</u>
<b>Susan B. Roberts, Ph.D.</b> New England Medical Center	Physiological and Cognitive Effects of Beverage Consumption [continued in 2001]
<b>Jean-Baptiste Roullet, Ph.D.</b> Oregon Health Sciences University	Dairy Products, Calcium Intake, and School Performance [completed in 2001]
<b>Eva Maria Schmelz, Ph.D.</b> Wayne State University	Suppression of Colon Cancer by Dietary Sphingolipids and Calcium, Part II [continued in 2001]
<b>Jon A. Story, Ph.D.</b> Purdue University Research Foundation	Regulation of Cholesterol Metabolism by CLA-Rich Milkfat [completed in 2001]
<b>Dorothy Teegarden, Ph.D.</b> Purdue Research Foundation	Do Dairy Products Prevent Weight Gain in Young Women [completed in 2001]
<b>Warren Thompson, M.D.</b> The Mayo Clinic	Effects of High Dairy, High Fiber, Low Glycemic Index, Low Energy Density Diet on Weight, Body Fat, and Glucose Tolerance [began in 2001]
<b>Kevin Tipton, Ph.D.</b> University of Texas Medical Branch	Ability to Enhance the Stimulation of Muscle Growth by Resistance Exercise [continued in 2001]
<b>John P. Vanden Heuvel, Ph.D.</b> Pennsylvania State University	Modulation of Diabetes by Conjugated Linoleic Acid [continued in 2001]
<b>Michael B. Zemel, Ph.D.</b> University of Tennessee	Role of Whey Proteins in Enhancing the Anti-Obesity Effects of Dietary Calcium [began in 2001]
	Effects of Calcium-Rich Dairy Products on Weight Loss in Obese Adults [completed in 2001]
	Role of Dairy Foods in Reducing Body Fat and Enhancing Weight Loss in African-American Adults [continued in 2001]
	Interaction between Calcium Rich Dairy Products and Dietary Micronutrients in Modulating Weight Loss in Obese Mice [continued in 2001]



## APPENDIX G

### QUALIFIED STATE OR REGIONAL DAIRY PRODUCT PROMOTION, RESEARCH, OR NUTRITION EDUCATION PROGRAMS, 2001

**Allied Milk Producers' Cooperative, Inc.**  
495 Blough Road  
Hooversville, PA 15936-8207

**American Dairy Association & Dairy Council Mid East**  
5950 Sharon Woods Boulevard  
Columbus, OH 43229

**American Dairy Association & Dairy Council, Inc.**  
219 South West Street, Suite 100  
Syracuse, NY 13202

**American Dairy Association Middle Atlantic, Inc.**  
325 Chestnut Street, Suite 600  
Philadelphia, PA 19106

**American Dairy Association of Alabama**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**American Dairy Association of Georgia**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**American Dairy Association of Illinois**  
1 West Front Street  
El Paso, IL 61738

**American Dairy Association of Kentucky**  
9201 Bunsen Parkway, Suite 100  
Louisville, KY 40220

**American Dairy Association of Michigan, Inc.**  
2163 Jolly Road  
Okemos, MI 48864

**American Dairy Association of Mississippi**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**American Dairy Association of Nebraska, Inc.**  
8205 F Street  
Omaha, NE 68127-1779

**American Dairy Association of North Carolina**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**American Dairy Association of South Carolina**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**American Dairy Association of South Dakota**  
2015 Rice Street  
St. Paul, MN 55113

**American Dairy Association of Virginia**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**California Manufacturing Milk Producers  
Advisory Board**  
3800 Cornucopia Way, Suite D  
Modesto, CA 95358-9492

**California Milk Producers Advisory Board**  
3800 Cornucopia Way, Suite D  
Modesto, CA 95358-9492

**Dairy Council Middle Atlantic, Inc.**  
325 Chestnut Street, Suite 600  
Philadelphia, PA 19106

**Dairy Council of California**  
1101 National Drive, Suite B  
Sacramento, CA 95834-1945

**Dairy Council of Michigan, Inc.**  
2163 Jolly Road  
Okemos, MI 48864

**Dairy Council of Nebraska, Inc.**  
8205 F Street  
Omaha, NE 68127-1779

**Dairy Council of Utah/Nevada**  
1213 East 2100 South  
Salt Lake City, UT 84106

**Dairy Council of Wisconsin, Inc.**  
999 Oakmont Plaza Drive, Suite 510  
Westmont, IL 60559

**Dairy Farmers, Inc.**

166 Lookout Place, Suite 100  
Maitland, FL 32751-4496

**Dairy MAX, Inc.**

2415 Avenue J, Suite 112  
Arlington, TX 76006-6119

**Dairy Promotion, Inc.**

Dairy Farmers of America  
P.O. Box 909700  
Kansas City, MO 64190-9700

**Georgia Agricultural Commodity Commission  
for Milk**

19 Martin Luther King Jr., S.W., Room 328  
Atlanta, GA 30334

**Granite State Dairy Promotion**

c/o New Hampshire Department of Agriculture  
25 Capitol Street, 2<sup>nd</sup> Floor  
Concord, NH 03302-2042

**Idaho Dairy Products Commission**

1365 North Orchard, Suite 203  
Boise, ID 83706

**Illinois Milk Promotion Board**

1701 N. Towanda Avenue  
P.O. Box 2901  
Bloomington, IL 61702-2901

**Indiana Dairy Industry Development Board**

ISTA Center  
150 W. Market Street, Suite 414  
Indianapolis, Indiana 46204

**Louisiana Dairy Industry Promotion Board**

c/o Louisiana Department of Agriculture and Forestry  
P.O. Box 3334  
Baton Rouge, LA 70821-3334

**Maine Dairy and Nutrition Council**

333 Cony Road  
Augusta, ME 04330

**Maine Dairy Promotion Board**

333 Cony Road  
Augusta, ME 04330

**Michigan Dairy Market Program**

P.O. Box 8002  
Novi, MI 48376-8002

**Midwest Dairy Association**

2015 Rice Street  
St. Paul, MN 55113

**Midwest Dairy Council**

2015 Rice Street  
St. Paul, MN 55113

**Milk for Health on the Niagara Frontier, Inc.**

4185 Seneca Street  
West Seneca, NY 14224

**Milk Promotion Services of Indiana, Inc.**

9360 Castlegate Drive  
Indianapolis, IN 46256

**Minnesota Dairy Research and Promotion Council**

2015 Rice Street  
St. Paul, MN 55113

**Nebraska Dairy Industry Development Board**

8205 F Street  
Omaha, NE 68127-1779

**Nevada Farm Bureau Dairy Producers' Committee**

2165 Green Vista Drive, Suite 205  
Sparks, NV 89431

**New England Dairy and Food Council**

1034 Commonwealth Avenue  
Boston, MA 02215

**New England Dairy Promotion Board, Inc.**

1 Kennedy Drive, Unit L7  
South Burlington, VT 05403

**New Jersey Dairy Industry Advisory Council**

c/o New Jersey Department of Agriculture  
P.O. Box 330  
Trenton, NJ 08625-0330

**New York State Department of Agriculture  
and Markets**

Division of Dairy Industry Services and  
Producer Security  
1 Winners Circle  
Albany, NY 12235-0001

**North Dakota Dairy Promotion Commission**

2015 Rice Street  
St. Paul, MN 55113

**Oregon Dairy Products Commission**  
10505 Southwest Barbur Boulevard  
Portland, OR 97219

**Pennsylvania Dairy Promotion Program**  
c/o Pennsylvania Department of Agriculture  
2301 North Cameron Street  
Harrisburg, PA 17110-9408

**Promotion Services, Inc.**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**Rochester Health Foundation, Inc.**  
c/o American Dairy Association & Dairy Council, Inc.  
219 South West Street, Suite 100  
Syracuse, NY 13202

**St. Louis District Dairy Council**  
1254 Hanley Industrial Court  
St. Louis, MO 63144-1912

**Southeast United Dairy Industry Association, Inc.**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**Southwest Dairy Museum, Inc.**  
P.O. Box 936  
Sulphur Springs, TX 75483

**Tennessee Dairy Promotion Committee**  
5340 West Fayetteville Road  
Atlanta, GA 30349-5416

**United Dairymen of Arizona**  
2008 South Hardy Drive  
Tempe, AZ 85282

**Utah Dairy Commission**  
1213 East 2100 South  
Salt Lake City, UT 84106

**Vermont Dairy Promotion Council**  
116 State Street, Drawer 20  
Montpelier, VT 05620-2901

**Washington State Dairy Council**  
4201 198th Street, S.W., Suite 102  
Lynnwood, WA 98036-6757

**Washington State Dairy Products Commission**  
4201 198th Street, S.W., Suite 101  
Lynnwood, WA 98036

**Western Dairyfarmers' Promotion Association**  
12000 North Washington Street, Suite 200  
Thornton, CO 80241

**Wisconsin Milk Marketing Board, Inc.**  
8418 Excelsior Drive  
Madison, WI 53717